103

REAUTHORIZATION OF THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

JUNE 24; JULY 1, 1993

Serial No. 103–15

Printed for the use of the Committee on Post Office and Civil Service

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CONTENTS

June 24, 1993

July 1, 1993

REAUTHORIZATION OF THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

THURSDAY, JUNE 24, 1993

House of Representatives,
Committee on Post Office and Civil Service,
Subcommittee on Compensation and Employee Benefits,
Washington, DC.

The subcommittee met, pursuant to call, at 2:20 p.m., in room 311, Cannon House Office Building, Hon. Eleanor Holmes Norton (chair of the subcommittee) presiding.

Members present: Representatives Norton, Byrne, and Morella.

Ms. Norton. The subcommittee will come to order.

Today, the subcommittee holds the first of two hearings on the reauthorization of the Performance Management and Recognition System. PMRS provides for bonuses and merit pay increases for all Federal supervisors and management officials in grades 13 through 15. PMRS was established in 1984 and reauthorized in 1989 and 1991. It is scheduled to sunset on September 30, 1993.

On May 27, 1993, the Office of Personnel Management presented the subcommittee with a proposal providing for the establishment of a unified performance management system covering both management level and rank-and-file employees. Its implementation would change the manner in which performance awards, as well as merit pay and longevity pay increases, are handed out. The proposal seeks to vest agencies with maximum flexibility to design performance management programs which reflect their own unique structure, needs, and culture. It calls for employee participation throughout this process.

Our hearings will focus on OPM's proposal as well as on how PMRS has functioned over the past 2 years. PMRS has been widely criticized for not meeting its objective of motivating and rewarding employees because, it is alleged, the cash awards it provides have been distributed unfairly and the amounts have been too small.

PMRS, along with the performance management system, which currently covers rank-and-file employees, have both been the subject of recent exhaustive studies. When the Congress last reauthorized PMRS in 1991, the legislation provided for the establishment of the PMRS review committee to examine the system and submit recommendations to the Director of OPM on how to achieve a fair and effective system.

The Federal Employees Pay Comparability Act of 1990 established the Pay-For-Performance Labor-Management Committee to advise OPM on the link between the pay and performance of rank-and-file employees. The contribution of both committees is reflected in OPM's reform proposal.

Scheduled to testify before the subcommittee this afternoon are James B. King, the Director of the Office of Personnel Management; and Nancy R. Kingsbury, Director of Federal Human Resources Management Issues at the General Accounting Office.

At our second hearing, which will take place 1 week from today, on July 1, we will hear from the associations which represent the Federal Government's management level employees, along with unions representing rank-and-file employees.

I would especially like to welcome today's witnesses, both of whom have appeared before this subcommittee previously on other matters. I look forward to hearing your testimony today.

Mrs. Byrne may have an opening statement. No? Thank you.

We are ready to take your testimony.

STATEMENT OF JAMES B. KING, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

Mr. KING. Thank you, Madam Chair. May I first present to the committee, to the chair, Ms. Jean Barber, Associate Director of the Office of Personnel Management, who is with me at the table today.

Madam Chair and members of the subcommittee, thank you for providing OPM with this opportunity to discuss the Performance Management and Recognition System, PMRS. As the subcommittee knows, we at OPM have been giving much thought to the future of PMRS, not only because of the September 30 expiration of its authorizing legislation, but also because of the important role performance management has to play in the President's and Vice President's efforts to reinvent government through the National Performance Review.

The time is ripe for empowering agencies, managers, employees, and employee representatives to create performance management programs that will enhance individual and organizational effectiveness and mission accomplishment.

As you know, the Congress authorized two committees to advise OPM on how to improve the Federal performance management systems, both the PMRS and the separate system that has been in use for most other employees. The Pay-For-Performance Labor-Management Committee, for rank-and-file employees, was created under the 1990 Pay Reform Act. The PMRS review committee was authorized by the act that extended PMRS until this September 30.

In addition to the work of these two committees, OPM has conducted numerous meetings with groups of stakeholders to discuss and refine ideas for reform, with an eye toward proposing changes to both systems. The recommendations OPM received from the two committees and other important sources, including the National Research Council and GAO, provide some differing perspectives, but also notable consensus, on the kind of system that should be used to assess and reward employee performance.

It is especially noteworthy that none of the groups favored continuing the traditional merit pay approach, such as PMRS. Specific complaints about PMRS focused on its lack of credibility, its rigidity, and the lack of any demonstrable benefit for the considerable efforts and resources that went into it and do go into it. Further, the participants find that both PMRS and the general performance management system, they find them demoralizing and divisive.

In considering solutions we have looked for common ground in the various reports and comments and have found there is considerable amount of agreement on some underlying principles. We have adopted these principles as the foundation for a unified performance management system that we are developing, to apply to the employees now on PMRS and most other employees as well.

These principles include: Equity—a fair and uniform approach to basic pay progression; two, flexibility—allowing agencies to tailor programs to their own organizational needs; and three, involvement—giving employees and their representatives a major role in the design and operation of the agency programs.

Performance appraisal is, of course, the basis of any performance management system. PMRS used a five-level rating system, with level 3 being the fully successful performance level. We have come to the view that the rating system is too rigid to suit the great variety of organizational settings and needs that agencies have, and requires supervisors to make distinctions in the performance of individual employees that can be difficult to explain and/or justify.

Accordingly, we are looking at whether we should only require, on a government-wide basis, a single determination—do employees meet the overall expectations for the performance of their jobs? Agencies would, however, have the flexibility to make further performance distinction among employees who pass this basic test, if such distinctions are suited to the work culture of their organization.

This meets-expectations approach would allow greater flexibility to design programs that are more adaptable, easier to use, and more effective, we believe. For example, they could emphasize organizational accomplishment and teamwork as well as individual achievements. While we want to give agencies more flexibilities, it is absolutely necessary that employees and their representatives be involved in designing agency systems, and that individual employees have input into developing the performance expectations for their jobs.

Under the concept we are considering, employees now under PMRS and employees now under the generally applicable system would all be brought under the unified performance management system. To provide an orderly transition to a unified system, PMRS would be extended long enough to allow PMRS employees to receive their final merit increases in October of this year, based on their performance during fiscal year 1993. Then PMRS employees would be transferred to the new unified system as it is implemented for employees generally. Current PMRS employees would receive credit for all their service from October of this year toward their next within-grade increase.

To further provide for an orderly transition for PMRS employees to the unified system, we are considering a modification in the pay administration system for the General Schedule. Specifically, we are considering a change that would make it possible to set employee pay at any dollar amount in the pay range of a grade, instead of only at 1 of the 10 fixed steps. However, the unified system would continue to use within-grade pay advancements in the same amounts, and with the same time intervals as now provided under the general schedule.

This more flexible approach to setting pay within the range was one of the few features of the PMRS that worked well. Its use in the unified system would allow more rational pay administration and avoid substantial costs that would otherwise occur when PMRS employees are converted to the unified system.

To maintain an appropriate link between performance and pay under the unified system, an employee's within-grade pay advancement would be dependent upon meeting the established performance expectations. This would continue the current requirement that employees perform at an acceptable level of competence to receive within-grade increases. Agencies would be given flexibility in providing faster pay advancement for superior performers. In addition, the unified system would require that employees meet performance expectations in order to receive general pay increases, similar to the current PMRS provision.

The performance management reform that we are considering would also include authority for agency programs that include innovative approaches not possible under the Government-wide system. Under such an authority, agencies could seek OPM approval of cost-neutral alternative performance management programs tailored to their needs with waivers of related provisions of law and regulation. In developing alternative programs, agencies would be required, as appropriate, to consult and bargain with employee unions.

In summary, we believe the Government has an unusual opportunity this year to reform the overall performance management system and we should take that opportunity. I have attempted to outline the key changes that we are now considering to make the system best serve the goal of quality performance by individual employees and their organizations through increased employee involvement, greater emphasis on group performance, greater flexibility to meet organizational needs, and a more streamlined administration. We expect to submit proposed legislation to the Congress in the near future and we look forward to working with the subcommittee during this process.

Thank you, Madam Chair, and I would be pleased to answer questions that the subcommittee may have.

[The prepared statement of Mr. King follows:]

Prepared Statement of James B. King, Director, Office of Personnel Management

Madam Chair and members of the subcommittee: Thank you for providing OPM this opportunity to discuss the Performance Management and Recognition System [PMRS]. As the subcommittee knows, we at OPM have been giving much thought to the future of PMRS, not only because of the September 30 expiration of its authorizing legislation, but also because of the important role performance management has to play in the President's and Vice President's efforts to reinvent government, in the National Performance Review. The time is ripe for empowering agencies, managers, employees, and employee representatives to create performance management programs that enhance individual and organizational effectiveness and mission accomplishment.

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Labor-Management Committee, for rank-and-file employees, was created under the 1990 Pay Reform Act. The PMRS Review Committee was authorized by the act that extended PMRS until this September 20. In addition to the work of these two committees, OPM has conducted numerous meetings with groups of stakeholders to discuss and refine ideas for reform, with an eye toward proposing changes to both systems.

The recommendations OPM received from the two committees and other important sources, including the National Research Council and GAO, provide some differing perspectives—but also notable consensus—on the kind of system that should be used to assess and reward employee performance. It is especially noteworthy that none of the groups favored continuing a traditional "merit pay" approach, such as PMRS. Specific complaints about PMRS focused on its lack of credibility, its rigidity, and the lack of any demonstrable benefit for the considerable efforts and resources that go into it. Further, participants find both PMRS and the general performance management system demoralizing and divisive.

In considering solutions, we have looked for common ground in the various reports and comments and have found that there is considerable agreement on some underlying principles. We have adopted these principles as the foundation for a unified performance management system that we are developing, to apply to employees now in PMRS and to most other employees as well. These principles include:

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Involvement—Giving employees and their representatives a major role in the design and operation of agency programs.

Performance appraisal is, of course, the basis of any performance management system. PMRS has used a five-level rating system, with level 3 being the fully successful performance level. We have come to the view that this rating system is too rigid to suit the great variety of organizational settings and needs that agencies have, and requires supervisors to make distinctions in the performance of individual employees that can be difficult to explain or justify. Accordingly, we are looking at whether we should only require, on a Government-wide basis, a single determination—do employees meet the overall expectations for the performance of their jobs? Agencies would, however, have the flexibility to make further performance distinctions among employees who pass this basic test, if such distinctions are suited to the work culture of their organization. This "meets expectations" approach would allow greater flexibility to design programs that are more adaptable, easier to use, and more effective. For example, they could emphasize organizational accomplishment and teamwork as well as individual achievements. While we want to give agencies more flexibility, it is absolutely necessary that employees and their representatives be involved in designing agency systems, and that individual employees have input in developing the performance expectations for their jobs.

Under the concept we are considering, employees now under the PMRS and employees now under the generally applicable system would all be brought under the unified performance management system. To provide an orderly transition to the unified system, PMRS would be extended long enough to allow PMRS employees to receive their final merit increases in October of this year, based on their performance during fiscal year 1993. Then, PMRS employees would be transferred to the new unified system as it is implemented for employees generally. Current PMRS employees would receive credit for all their service from October of this year toward their next within-grade increase.

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In summary, we believe the Government has an unusual opportunity this year to reform the overall performance management system, and we should take the opportunity. I have attempted to outline the key changes that we are now considering to make the system best serve the goal of quality performance by individual employees and their organizations—through increased employee involvement, greater emphasis on group performance, greater flexibility to meet organizational needs, and streamlined administration. We expect to submit proposed legislation to the Congress in the near future, and we look forward to working with the subcommittee.

Thank you. I would be pleased to answer any question the subcommittee may have.

Ms. NORTON. Thank you very much, Mr. King.

The ranking member, Mrs. Morella has arrived. Do you have an opening statement, Mrs. Morella?

Mrs. MORELLA. I do and I will try to abbreviate it, Madam Chair.

I have had a chance to review your testimony, too, Dr. King, but just a few comments apropos of the hearing, and I am glad you are having it Madam Chair, because it is very timely and critical.

The Federal Government has been interested in performance management for over a century—the Grant Commission in 1871; the Civil Service Commission in 1883; and now the Performance Management Recognition System. Our mission now is to determine reauthorization and the changes that need to be made, and if we do reauthorize it, also for how long, because it is going to sunset at the end of September.

The PMRS system was extended 2 years ago with modifications, which at that time was thought to provide some flexibility in performance evaluation and standards in appraising work objectives. That legislation, introduced by Mr. Ackerman, also established the PMRS review committee, comprised of knowledgeable and dedicated people, to evaluate and to advise the Office of Personnel Management on necessary refinement and changes.

In its report, the PMRS review committee reported that it did improve on its predecessor, the Merit Pay System, but was still not considered fair or effective. The review committee in November 1991, in that document, reported that there is a compelling need to simplify the PMRS to remove nonperformance factors from the appraisal process, improve communication in the PMRS training, and permit agencies the necessary flexibility to expand and adapt the performance awards process to the particular structure and encourage decentralization of the performance program for restoration of fairness and credibility of the system.

The GAO document also identified similar issues and emphasized, inter alia, there are too many conflicting purposes resulting in unmet objectives.

That is what we are here for. I don't need to go into the other details, but it is a subject that can be technical. You are trying to arrive in your recommendations at what could be a solution for it. Looking at the recommendations that have been made and the people to whom you have spoken, I am reminded that the Classification and Compensation Society, around 4 years ago, testified before this subcommittee on performance management and stated, "The search for an effective performance evaluation system has, in some ways, taken on the dimensions of a mythic quest like that for the fountain of youth."

And then the society continued to quote Sun Tzu, a third-century Chinese philosopher, criticizing a management official's rating process—even at that time it happened—and said, "The imperial rater of nine grades seldom grades men—and women, understood—according to their merits but always according to his—or her—likes and dislikes. It is difficult to judge men—and women—and I do not blame him—or her."

And so I think performance recognition is certainly important, Madam Chair, and it is important that we try to do something about it. Thank you for allowing me to make this opening statement.

Ms. NORTON. Always. Thank you, Mrs. Morella.

Let me begin, then, with a few questions first and then pass on to my colleagues and then I will come back and ask some others.

Mr. King, could I ask you, what are the estimated costs avoided by moving PMRS employees into a unified pay-for-performance system, not based on steps within each grade?

Mr. KING. Well, what we are hoping to do in this, it would be really a neutral—it will be a direct—depends on how you want to weigh it. There is a breakage, as you know. There is a claim that there will be approximately $60 million on what had been breakage on this.

I think we address it to make it, quite frankly, a budget neutral proposal. We had discussed this matter, really, with the AFL–CIO Public Employee Union, the National Federation of Federal Employees, and others, who suggested an alternative that would not result in any reductions from employees. If you look at the gross amount they would ordinarily receive, the so-called savings comes out of what payments would be received by the employees themselves.

And their suggestions, and after we listened to them, we thought made—we were impressed by their arguments and we believed we could reach an accommodation that would be both fair to the employees and give them some sort of a proposal that would be revenue neutral and still would be of interest. The suggestion that involves is that we would have a new rule on minimum increases at promotion that would be equal to 7 percent, instead of the old rule which provides for an increase equaling two steps.

So that, really, the total amount in the pot, or in the pot to begin with, when we change, would remain the same. There would be no loss, if you would, to the employees themselves in this particular method. And since it would be put into the entire system, I think we would address an equity question in that everyone would benefit. This is one time when the tide would come in. Everyone would be in a boat and everyone would rise.

Ms. NORTON. Assuming PMRS is abolished, would you identify the potential impact, financial or otherwise, to PMRS-covered managers who are transferred into PMS? Is there a financial downside in this transfer or are there benefits?

Mr. KING. Well, the financial impact on the proposed PMS employees, it is really mixed. For approximately two-thirds of the employees there would be virtually no effect on their within-grade pay increases. About one-third of the PMS group would see a reduction of the within-grade increases because the system would no longer automatically provide larger increases based on superior performance. However, the top performers may well be eligible under this system for quality increases.

And the PMRS employees, I would certainly think, would benefit upon proposals of the more generous 7-percent increase rule we just discussed first, what had been the old 6 percent rule under PMRS. The basic benefit, if you would, that the PMRS employees would receive would be that they would no longer be subject to the five-level summary performance appraisal system and the mandatory links between the summary appraisal ratings and within-grade pay adjustments.

As participants in this system, the new system I am talking about, they would benefit from greater participation of program design, with greater flexibility to tailor programs to their real work and the culture of their organizations, which we presently don't have.

Ms. NORTON. Disturbingly, the more prevalent complaint about PMRS is that more often than not ratings are based on friendship and favoritism rather than performance. A lack of formal government-wide criteria for the new performance system, coupled with the focus on maximum flexibility and decentralization, could result in continued inequities, in my view.

How will OPM guarantee equity for Federal employees while also pursuing the decentralization initiative?

Mr. KING. I think that, first, we genuinely anticipate fewer problems based on friendship and perceived favoritism due to the system requirement for employee involvement and an increased interest in expanding their source's input to the performance assessment.

I don't want to always fall back on China Lake, but I think it is particularly useful there, the interest by the participants in the product. When you talk to the other people, the ones who were rated not as high, for example, there was a genuine agreement that the people selected really did represent the best in their particular operating units of the people they knew. They were familiar with that. There was a genuine recognition that was fair.

The process, as it evolved, developed that in because of that input and the continuous feedback. I think this can be done the same way, Madam Chair.

Ms. NORTON. You refer to employee involvement. I note that employee involvement was first used in the private sector by companies with unions and was achieved through collective bargaining. If OPM intends for employees to participate in the design and implementation of the new pay system, why does OPM not recommend amending the Civil Service Reform Act to ensure that employee unions have negotiating rights?

Mr. KING. I think what we are talking about here, Madam Chair, is we are making a gigantic step in the deregulation, and in the deregulating and moving it back to the local agencies we are creating an opportunity, and I believe that should be reflected in the legislation that we recommend to the Congress and which would create an opportunity for really constructive labor-management relations. And we would like to give that a chance to work.

Ms. NORTON. How would you see the unions participating?

Mr. KING. I see them in a real-life—as we define and as the various parties sit down and start to make this work, the process is collective right from the beginning at the participatory level. If we are sitting down and talking about regulating once again and saying you will sit at a table and you will do this, then we have lost the real thrust, which is the flexibility aspect and the development of the give-and-take that we have seen work successfully, and we would like to give that a chance to work, Madam Chair.

Ms. NORTON. I suppose I just don't get it. I don't think you would have trouble getting the employee associations to, in fact, sit down with——

Mr. KING. I don't think we have to command them to be there, Madam Chair.

Ms. NORTON. It is not a question of demanding them. The question is are you going to sow confusion by not spelling out what kind of input or participation they will have, how far it will go, and what say they will have in the system?

Mr. KING. We would like to see them explore that because they will be released from many regulatory, and even within the legal aspects, so that they will have an opportunity to work that out at each step and at the working level.

Ms. NORTON. But what you are not proposing is an ordinary negotiating relationship they have.

Mr. KING. At this moment we will not be recommending any sweeping changes in that relationship by law.

Ms. NORTON. I have to tell you that I foresee great differences among agencies and considerable difficulty if you switch to a system like this with such ill-defined notions of how employee organizations will participate. I believe that needs greater thought from you or else you are going to work it out on a case-by-case basis with a lot of conflict and confusion about just what you mean by employee involvement in this new system, particularly given the fact that there is such great dissatisfaction with the old system or with how it worked out.

May I ask you, finally, under the new system you propose applying performance standards to the Federal Employees Pay Comparability Act annual pay adjustments and locality adjustments. Now, this seems at odds with FEPCA's purpose, which is an objective purpose to achieve pay comparability between the Federal and the private sector for Federal sector jobs.

What purpose does OPM contemplate is achieved by linking comparability adjustments to performance standards? Wouldn't it be better simply to apply the new system standards to career ladder promotions and within-grade step increases? Are you, in other words, truly complicating your life by superimposing one system on another right at the time when you are making a transition to a new system?

Mr. KING. I don't see where we are necessarily going to make anything any more complex. If anything, we are customizing for the people who are being transferred over so that there is no loss and we are indicating flexibility.

Ms. NORTON. Well, somebody who finds that in a given job classification there is a locality pay adjustment of *x* amount of dollars due, may find that that locality pay adjustment differs among employees in the same unit.

Mr. KING. Well, are we talking about the poor performers here or are we talking about the—I don't——

Ms. NORTON. I am not talking about performance.

Mr. KING. I didn't think so.

Ms. NORTON. No, but what I am talking about is the link between comparability adjustments and performance standards, which, as I understand it, is part of what you——

Mr. KING. I am sorry, what you are saying is that—well, I guess my response would be if you don't perform, you don't get an increase.

Ms. NORTON. Well, if you don't perform, meaning if you have an unsatisfactory performance rating?

Mr. KING. Actually, if you are on the five-step, the minimum satisfactory and the unsatisfactory, you would not receive any pay increase. You would work out a, as you know, a performance review, a performance and a performance improvement, and you would work from there, Madam Chair.

The idea behind that is the concern that we have had, Madam Chair, and that is why we recommend that, is that it does not represent any lack of commitment to helping poor performers to improve, but it does state unequivocally that they should not get a pay adjustment upward. And I think it is a matter of accountability to the public how the money is being spent.

This is an area where we get a disproportionate amount of criticism. When we are talking about this, in those bottom two categories we have less than 1 percent of our work force, Madam Chair.

Ms. NORTON. What are the categories where you would not get the locality pay increase?

Mr. KING. The unsatisfactory and the minimum satisfactory. If you would, the four and five category on the one through five.

What we are talking about here is less than 1 percent of the entire labor force falls into this category. And, quite frankly, they have acted as the anchor for the other 99 percent plus of the other workers who do very good work across the board, Madam Chair.

Ms. NORTON. Acted as what?

Mr. KING. As an anchor. They are the folks that set it up so that every cheap shot in this country—that is where the cheap shots come from, is the less than 1 percent, and folks who say you give money and bonuses to people that don't perform. And I am saying they are a tiny part of our entire civil service system, and what it has done is created the opportunity for those folks to make those kinds of criticisms that are unfair.

And, quite frankly, Proctor & Gamble has made a career out of selling a bar of soap that is less pure than our own Federal employees, and the one imperfection we have here, I think it is time, Madam Chair, we put our mouths and our money together as far as performance goes, and that is why we are recommending that.

Ms. NORTON. Thank you, Mr. King.

I want to go now to the ranking member, Mrs. Morella.

Mrs. MORELLA. One of the questions I had, also had to do with how you anticipate and factor in opportunities for the employees and their representatives to participate in the revised system, and so I guess you will be as specific with us as time goes on.

Mr. KING. I am hoping that we can be, because we will have legislation. And the suggestions that would follow, that would be regulatory, that would compliment the law, when passed, and I think we would see significant improvement and very significant flexibility.

We are not trying to create chaos in the workplace but we are talking about taking a building block approach on this and making sure there are ample building blocks down there to work with so that we can continue down the road to progress.

By the way, the system we are talking about is not going to work without the participation of all the parties. It just is not going to work, and you are right on target. The specifics, we are not that prepared yet, but we did want to give you the principles and what our objectives were and what our goals were for your knowledge at this time.

Mrs. MORELLA. I want to ask you about how you would, under the new system, identify the best performers and give them reduction-in-force credit, because they can get credit under the current system for performance and reduction in force. So have you thought about how that would factor in?

Mr. KING. It has been built in.

I know DOD—again, let me choose—I don't want to use China Lake again. It is not necessarily the paradigm, but it is useful because you had two facilities out there close to each other looking at a RIF. At China Lake they have about 10 percent coming in on the top of their particular rating system. In other locations that are competing with each other they have substantially more people up in that category in their top quadrant.

What they have done is informally agree—China Lake sets a much higher standard, and it is very similar to the one, if you would, at this time, the academies are reviewing, for example, school admissions. Is your high school and the course program in your high school more competitive than another high school and its course program? How do you evaluate the rigors of the particular academic institution you have been in if you are in a high school?

So that shows there is flexibility within the system. There has been agreement in certain areas it is much tougher, the ratings are much tougher, so that they have worked out their own arrangements. We are talking about decentralizing parts of this process and having the managerial teams have the ratings more accurately reflect the realities of the workplace.

I don't know that I have answered your question, though.

Mrs. MORELLA. You have attempted to indicate that you are going to try to recognize the best performers.

Mr. KING. God willing. And I mean this. I would hope we are not going to be facing RIF's. You are talking to someone right now who I don't—I don't view that. I view that as the last worst resort to any kind of carrying out of any of the Federal policies. I do not see that as part of the mix I put on the table.

Mrs. MORELLA. No, no, but it is a possibility.

Mr. KING. But I want you to know where I am coming from, and I recognize the realities of what you are saying. But so we understand that, we will try to design it in so that there is an equity in there.

Mrs. MORELLA. Because of the funding constraints, have you considered shifting funds from bonuses to the annualized merit pay, merit-based increases in pay?

Mr. KING. We felt that, again, that as we decentralize that the agencies will have available some moneys. We are hoping gain sharing will be part of that and that gain sharing then could be used for bonuses and recognition along with other moneys that may come available at that level and that recognition in the form of cash be given.

The transfers we are talking about—the term "savings" that was made in there, and we use the term, so I don't want to give it to some anonymous third party. That was our phrase. When we talked to the various bargaining units, as we said, they were extraordinarily helpful and we felt their arguments had a great deal of validity; that there was a pool of money that was presently being used for our employees for their benefit. And, in fairness and in equity, the idea that was put forward was their methodology in which that could be shared across the board.

I think the 7 percent addresses that so that it becomes budget neutral and yet, on the other hand, I think there is a sharing. And there is a definite spirit there that I think was captured and, hopefully, will be carried forward. That is reflected in promotions, but I think there was an attitude reflected there that I thought was very positive.

Ms. NORTON. Mr. King, I am going to ask that the hearing recess for about 10 minutes so that we can go vote. I hope the two members who have been good enough to come will be able to come back and that you will remain for a few minutes longer for further questions.

Mr. KING. Oh, surely, Madam Chair.

Ms. NORTON. We have only one witness after that and so I don't expect the hearing to take a long time. Thank you.

Mr. KING. Thank you, Madam Chair.

[Recess.]

Ms. NORTON. I expect the other members to return, but so as not to hold up the hearing, I want to proceed with as much as I can.

Let me express my concern once again. Ranking member was also questioning employee organizational involvement, and I recognize that the system in the Federal Government is different, but the fact is that there are considerable rights to negotiate within the system and I would hate to see us go to a new system with a lot of hard feelings with the unions and employee organizations who feel that their role is either depreciated or not spelled out sufficiently. And, above all, we do not want OPM to come back next time meeting a whole flurry of criticisms about differential ways in which this has worked.

So I urge you to give considerable thought to the problem of unintended consequences and to the failure, in many ways, of the present system. I am a very strong supporter of employee involvement. It has had extraordinary effects in the private sector. I saw and studied closely what it did to—to just name one company—the Ford Motor Co., which shortly thereafter became, for the first time, the most profitable automobile company in U.S. history.

I know what it can do, and I also know that it did it and it worked smoothly because the UAW had negotiated every bit of it. So there was nothing to have a dispute about. Either employees are involved or they are not involved. And one thing we have come to understand is that you cannot be a little bit pregnant. And if people think they are a little bit pregnant, they often resent a status that they know simply does not work. And I recognize that there are difficulties here.

I would like to know whether you have more information than you have provided on nonmonetary awards by agencies? What types of awards make up this category?

Mr. KING. We have not really collected any substantial data on honorary awards and other types of recognition that our employees get. We have an incomplete list and I could get that for the record, if you would like, Madam Chair, but I want you to know it truly is an incomplete list.

Ms. NORTON. I would most appreciate your filling out the record in writing on nonmonetary awards. I know for a fact, having run a Federal agency myself, that in many ways those awards can mean as much to people, if not more. To be singled out for an honor in a competitive society and a competitive work force like ours is to often get more than one ever dreamed of getting.

So I am interested in how much nonmonetary awards have been used, and whatever information you can get us and whether you recommend for reauthorization any specific language that encourages their greater use or comments upon them in any way.

Under the reform proposal, GS scheduled employees' annual merit increases will continue to be years in a grade. Thereafter, the waiting period is 2 years for within-grade steps four to six, and 3 years for within-grade steps seven or more. Isn't the maintenance of the multiyear delay in receipt of a merit increase rather than annualized increases counter to the goal of linking successful performance to a reward?

Mr. KING. OPM was advised not to alter the within-grade increase system by the Pay-For-Performance Labor-Management Committee. While OPM seriously considered changing to within-grade adjustments being made annually, we found that the increases would be made in the upper part of the pay range and it would be too small to be meaningful to the employee.

We had learned from PMRS experience that increases in the 1-percent range are of questionable reenforcement value and that an annualized version of the current system would be prohibitively expensive. So that was the basis of that, Madam Chair.

Ms. NORTON. A separate system for what are now GM managers was established under the Civil Service Reform Act to acknowledge the higher level of responsibility these employees held to increase their accountability and to recognize their successful performance. What options will agencies now have to acknowledge the higher levels of supervisor and management responsibility and accountability to which these management employees will continue to be held?

Mr. KING. Madam Chair, the primary way that agencies acknowledge supervisory and management responsibility and accountability is through the job evaluation system, and it provides for higher classification level for supervisors and managers and, consequently, a higher pay level.

Under the flexible unified system OPM is proposing, the agencies would have the obligation of designing award and recognition systems and programs for their supervisors and managers and, finally, the alternative authorities provision would enable agencies to devise unique approaches to pay-for-performance for different categories of employees that are not possible under our Government-wide system.

And so, really, what we are doing is optimizing flexibility throughout the system with special recognition for and identification of the employee that you are talking about, Madam Chair.

Ms. NORTON. How are officials and organizations to be held accountable for their rating decisions and what appellate rights will be available?

Mr. KING. Well, I know that the oversight is provided by our colleagues, but right now there are a number of features. We have—let's start with oversight, although we could anchor on it. Both OPM and GAO will address accountability of equity concerns at the system level, and I think that is a valuable item.

There is a legal requirement that the agency programs be consistent with merit principles of performance. A requirement that programs be designed with employee input and a requirement for employee involvement would help ensure the system and requirements resulting for those systems would be more acceptable to the employees, just exactly the issue and the point you have been making, Madam Chair. Negotiated and administrative grievance system, as well as your EEO complaint procedures would provide avenues for employees and their representatives to resolve the issues or complaints about equal treatment.

And as I suggested, you finally put that together with the oversight from GAO and OPM, and I think you have a reasonable system. There is no assurance, but I think there is a reasonable system in place to deal with a number of the issues, Madam Chair.

Ms. NORTON. I will ask the ranking member if she has any questions before I continue.

Mrs. MORELLA. Thank you, Madam Chair.

Dr. King, how do you guarantee under the proposed system that there would not be any favoritism.

Mr. KING. There is no way to guarantee that. I think we can make it damn uncomfortable under this system for people to continue to play that game and I think we can identify it because if we have employee participation, as I said. In those places where there is employee participation there is a sense of ownership and there is a sense of who is doing what and where and where the unevenness is.

And if there is a sense that there is unfair treatment, it surfaces very quickly in those settings, and so that the authoritarian approach to management is the place where this really can flourish. In the other alternatives we are talking about with this maximum flexibility, I think you will see it minimized. We have seen that in our various experimental programs across the board.

So I can't guarantee it. I think that is a reasonable question, but I think we truly can address it and we can chase it down and make darn sure it doesn't occur.

Mrs. MORELLA. It has to do with attitude.

Mr. KING. I think it will be episodic rather than systemic. That occasional thing will occur, and we will address it, but it will not be systemwide. And that is the sense we had in the present system, that it was an unfair system based on a lot more than performance.

Mrs. MORELLA. Also there are a number of agencies and departments that may not have union representatives, and in terms of involving employees, how would you do that?

Mr. KING. That is where the encouragement and the regulations both by law and regulatory procedures that we will be insisting on the participation and that can be done. The involvement process can be up and down the line both with and without bargaining units.

I personally believe working with bargaining units, that is a helpful way to go. The structure there is helpful but it can be done. But the employee input would be required by law and will have certain steps that have to be taken to secure that.

So a reasonable path we lay out to show that you have done that within that context and then, again, I think—I don't want to put too much of a load on GAO, I will let them speak for themselves, but I would like to think that oversight would include, that we would be addressing that, because that is a key component of this participatory side. That would be the, I think, one of the things that we have learned, that so far oversight does play a role, indeed.

And the other thing is when we see a system failing, we know there is not participation. You are going to be able to identify it. There will be some key ways as the system goes into being that you will know that people are not participating because there will be a failure mode that will kick in.

Mrs. MORELLA. So we are trying to point out possible potholes in the road to come up with something satisfactory.

Mr. KING. That is helpful, because I think the legislation which will be shaped with this committee is going to play a substantial role, and then in the regulatory aspects, that we give people the freedom to grow. But if they choose not to grow, we would like to identify those places that don't want to have a productive area and find out why.

Mrs. MORELLA. I am also curious. Every day I try to look at the Federal Diary because I know that my constituents are doing that. Was today's explanation of the problems and the solutions correct in Mike Causey's column?

Did you have a chance to read it.

Mr. KING. I hate to admit it, but I have a tendency to read the Post in the evening.

Mrs. MORELLA. He is getting off the hook, Madam Chair.

I might ask you if you get a chance to take a look at it.

Mr. KING. I will.

Mrs. MORELLA. And see whether or not it does seem to be in sync with your testimony and your belief. Thank you.

Thank you, Madam Chair.

Ms. NORTON. Thank you, Mrs. Morella. I note that the PMRS review committee was adamant and unanimous about requiring a two-level rating system. Why didn't OPM adopt this proposal?

Mr. KING. I believe, in large part, what we would like to do is to—let's put it in the politest terms. We would like to have a number of these decisions made at the local level; the operational level. We have had a tendency many times to fall into the old rules. We will make the decision for what is best for your operational side. If we are really going to empower the front line supervisors and workers, then that, in part, includes making decisions that directly affects their lives as long as it meets the performance criteria that are reasonable, that you are so familiar with, Madam Chair.

And that was really the objective, is to permit—whatever method people felt was fair, the folks who were there felt was fair and equitable, that would be the method that might be used. And there are so many, as you know, a wide variety of work situations, I think, that lends itself to it. I think it is one of those situations in which we would like to let many flowers grow and see which work out best.

It may need regulatory or legal action at some time, if it is felt it is necessary, but initially we would like to provide the opportunity to let people decide what would best work in their workplace.

Mrs. MORELLA. Would the chair yield.

Ms. NORTON. Mrs. Morella.

Mrs. MORELLA. Back to again the column that I mentioned, the Causey column. He talks about the simplified standard where workers either meet or fail. The great expectations idea; that it would either be pass-fail as a system. Is that also what you are referring to as a possibility?

Mr. KING. Yes, that is true. And one of the worst things is, it is a wonderful idea if the local folks want to use it. Right now you could not use that. We have a set standard which everywhere, wherever you go, from Nome, AK, to Panama City that is how you are to be rated if you are standing there at the locks.

What we are saying is why not understand the differences across our system, understand diversity, and within that diversity go to strength rather than weakness. What we would like to do is free up that sort of thing so that there is no magic to any number. We give you a smorgasbord and you select what you think will work in your situation.

Mrs. MORELLA. Thank you, Madam Chair.

Ms. NORTON. Where OPM contemplates waiving current laws and regulations to accommodate agency's plans to implement new performance incentive systems, how do you plan to assure that the rights of Federal employees are protected?

Mr. KING. I am sorry, Madam Chair.

Ms. NORTON. Apparently, there are circumstances when you foresee the necessity to waive current laws and regulations in order to accommodate plans agencies will present to you for new performance incentive systems. In that case, I am interested to know how the rights of Federal employees will be assured?

Mr. KING. I think we are back to the, or hopefully what we are looking forward to is that the agency or the particular subdivision of the agency will show, in a documentable fashion, that they have consulted with their employees; that there is clear participation and that people have agreed to those policies that they believe will make the workplace the most productive place for both them and carrying out their mission, so that it still remains basically intact as they want to use it and as they best feel will work for both parties.

But when I say both parties, I realize underlying, Madam Chair, so no one ever reading this transcript misses the point, is I know the subcommittee, as we do, as we are talking about this whole process, have never forgotten our basic customer is the public and that we are really trying to organize within so that we have the best service and the best product to serve the public, Madam Chair, and I am merely saying that so that in this process it is clear. I know I would like to have that reflected for all of us.

Ms. NORTON. Thank you.

Finally, Vice President Gore's National Performance Review is currently conducting a general review of government operations and included in this review is—included in his study is a review of personnel management systems. Does your proposal reflect any input from this review?

Mr. KING. Well, we have talked with the Vice President's group and the proposal is totally consistent with NPR's emphasis on flexibility, deregulation, and employee involvement. And the NPR staff, as I said, is aware of the proposal and agrees with the thrust of it.

The proposal offered now is a first step in an incremental process toward effective government. And, by the way, I was pleased to see that the Vice President's group was flexible enough to let us move out ahead of the actual announcement date with these types of promotion that are totally consistent with the thrust. And as you know, as you know so well, the committee knows, that with the PMRS law expiring September 30, we had to come to grips with this earlier and deal with it.

And, of course, I think we have all heard the same thing, that both the agencies and the managers that are under PMRS, that they have no desire to live any longer under this system and are eager to see change. So I think we are able to start that change in government a little bit earlier and I think we can do it in a significant way.

Ms. NORTON. Yes, the coincidence of dates here, reauthorization and the Vice President's report, does raise the question of whether some alteration or expansion of your own proposals might yet occur and whether it would be advisable for this subcommittee to wait on the Vice President's findings before acting on the performance management.

Of course, there is a problem of when the law expires, but, again, how would you recommend we deal with that problem or do you think we know everything we need to know now to proceed?

Mr. KING. I don't think all has been revealed to anyone at this stage, but I do think that the thrust, as we have said, they are aware of, they seem totally compatible.

Ms. NORTON. They looked at your testimony? They have seen your testimony here today?

Mr. KING. They have seen the proposal, yes, Madam Chair, and we have talked with them. We have not drawn any more for them than we have for you, Madam Chair, and as we proceed, we will view it in parallel.

Ms. NORTON. This being close to the end of June, the expiration date being the end of September, I, of course, will ask you how soon you anticipate being prepared to offer draft legislation embodying the principles of the proposed unified pay system.

Mr. KING. As we speak, we are flogging our group, and I would like to think that we would be back immediately after the Fourth of July holiday with the legislation.

Ms. NORTON. Appreciate that. The subcommittee would appreciate not being pushed up against a deadline. We have a number of reauthorizations this year.

Mr. KING. We remain sensitive to that Madam Chair and thank you.

Ms. NORTON. Thank you very much, Mr. King. I thank you both for appearing.

Mr. KING. Thank the committee for your kindness and your interest in this very important area.

Ms. NORTON. Could I call now Nancy R. Kingsbury, Director of GAO, Federal Human Resource Management Issues, General Government Division. We are pleased to welcome Ms. Kingsbury, who has been very helpful to us in the past.

STATEMENT OF NANCY R. KINGSBURY, DIRECTOR, FEDERAL HUMAN RESOURCES MANAGEMENT ISSUES, GENERAL ACCOUNTING OFFICE

Ms. KINGSBURY. Thank you, Madam Chair. I am very pleased to be here. With your permission, I have a fairly lengthy written statement which has been provided to the committee. I would like to give a short version of that and get right to your questions.

We are very pleased to be here to assist the subcommittee in considering the reauthorization of the Government pay-for-performance system which is set to expire, as you have mentioned, on September 30. Conceptually, there is strong support in both public and private sectors for performance management systems which develop a link between pay and performance.

PMRS is the latest Federal Government effort to create a pay-for-performance system for managers and supervisors. Like all performance management systems, PMRS' primary purpose is to improve individual and organizational effectiveness. Unfortunately, many observers, as you have cited many times this morning, believe that PMRS does not fully meet these goals.

In practice, PMRS performance ratings are used for multiple and sometimes conflicting management purposes, such as pay, awards, promotions, and reductions in force, as well as employee feedback and development. Our work shows that the results of this confusion of purpose was that supervisors tended to inflate ratings to protect their employees against being harmed by the rating; that is, not promoted or perhaps RIF'd.

This inflation makes ratings much less useful as a tool for constructive feedback on performance and may, in fact, confuse employees or lead to mistrust of management if an employee receives an apparently high rating but does not receive an award or promotion at the same level. Critics also point to difficulties in distinguishing consistently and fairly among the multiple levels of performance currently specifically required in PMRS. An increasingly large number of employees have been receiving PMRS performance awards since its implementation in 1985. Because the pool of funds available for awards has been limited, awards are getting smaller and employees and supervisors told us that PMRS awards are too small to serve a motivational purpose.

Indeed, the relatively larger number of award recipients magnifies the negative impact of not receiving an award, which may, in fact, in turn, negatively affect the underlying objective of improving organizational performance.

Despite these problems, supervisors and employees we talked to during our review, as well as studies and surveys, indicated PMRS and other performance management systems have been successful in improving expectation setting in the Federal workplace. It will be important to build on that progress by incorporating effective feedback tools in future performance management systems.

There is consensus among the various studies of PMRS, including our own, that performance management systems need more flexibility to permit tailoring to the mission and culture of each agency. OPM's recently circulated principles, which Mr. King has described this morning, fit with the recommendation that we have made for more flexibility.

Designing new performance management systems will be challenging and improvements will probably evolve over time. A starting point is the recognition that the fundamental objective of a performance management system is to improve organizational performance. We encourage agencies to focus on developing a clear purpose for each element of their performance management system and to strengthen the elements of the system that are designed to regularly provide realistic feedback on performance, such as expectation setting and regular discussion about performance.

We also believe it is important, and I can't stress this too much, Madam Chair, that agencies establish, with OPM oversight, evaluation procedures which will routinely provide information and accountability for ensuring that recognition and reward systems result in fair and equitable treatment of all employees.

The one concern I have about OPM's current proposal, insofar as it is on paper, lies in this accountability and oversight issue. Thank you, Madam Chair, I will be happy to take your questions.

[The prepared statement of Ms. Kingsbury follows:]

Prepared Statement of Nancy R. Kingsbury, Director, Federal Human Resources Management Issues, General Accounting Office

The Performance Management and Recognition System (PMRS) was enacted in 1984 as the government's pay for performance system for grades 13 through 15 supervisors and managers. Like all performance management systems, PMRS' primary purpose is to improve individual and organizational effectiveness. Unfortunately, PMRS does not fully meet these goals.

PMRS performance ratings are used as the basis for multiple management decisions, including pay, awards, promotions, reductions in force, and removals, and are also expected to serve as a basis for providing performance feedback to employees. The result of this confusion of purpose is that supervisors inflate ratings to protect their employees against being "harmed" by the rating (e.g., not promoted). The inflated ratings are then much less useful as a tool for constructive feedback on performance, and may lead to mistrust of management if an employee receives an apparently high rating but does not receive awards or promotions. Critics also point to difficulties in distinguishing among the multiple levels of performance required in PMRS.

PMRS has also resulted in increasingly larger number of employees receiving performance awards. Because the pool of funds available for awards is limited to 1.5 percent of the PMRS salary base, awards are getting smaller, and many employees and supervisors believe that PMRS awards are too small to motivate.

There is consensus among the various studies of PMRS, including GAO's, that performance management systems need to be more flexible, to permit tailoring to the mission and culture of each agency. OPM's principles and features for performance management reform provide flexibility and permit agencies to design their performance management systems with participation from employees and their representatives. The thrust of OPM's reform proposals are consistent with GAO's recommendations.

Designing new performance management systems will be challenging. A starting point is the recognition that the fundamental purpose of a performance management system is to improve organizational performance. GAO encourages agencies to focus on developing a clear purpose for each element of their performance management system and to strengthen the elements of the system which are designed to communicate expectations and regularly provide realistic feedback on performance. It is also important that agencies establish, with OPM oversight, evaluation procedures which will routinely provide information and accountability for ensuring that recognition and reward systems result in fair and equitable treatment of all employees.

Madam Chair and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in considering the reauthorization of the government's pay-for-performance system for its grade 13 through 15 managers and supervisors--the Performance Management and Recognition System (PMRS)--which is set to expire on September 30, 1993. As requested, we are providing our views on PMRS as well as some observations on the Office of Personnel Management's (OPM's) proposals for performance management reform.

RESULTS IN BRIEF

Conceptually, there is strong support in both public and private sectors for performance management systems which establish a link between pay and performance. The PMRS is the latest federal government effort to create a pay for performance system for managers and supervisors. Like all performance management systems, PMRS' primary purpose is to improve individual and organizational effectiveness. Unfortunately, many observers believe that PMRS does not fully meet these goals.

In practice, PMRS performance ratings are used for multiple and sometimes conflicting management purposes, such as pay, awards, promotions, and reductions in force, as well as employee feedback and development. Our work showed that the result of this confusion of purpose was that supervisors tended to inflate ratings to protect their employees against being "harmed" by the rating (e.g., not promoted, or RIFed). This inflation makes ratings much less useful as a tool for constructive feedback on performance, and may confuse employees or lead to mistrust of management if an employee receives an apparently high rating but does not receive an award or promotion. Critics also point to difficulties in distinguishing consistently and fairly among the multiple levels of performance currently required in PMRS.

An increasingly larger number of employees have been receiving PMRS performance awards since its implementation in 1985. Because the pool of funds available for awards is limited, awards are getting smaller, and employees and supervisors told us that PMRS awards are too small to serve a motivational purpose. Indeed, the relatively larger number of award recipients magnifies the negative impact of not receiving an award, which may in turn negatively affect the underlying objective of improving on organizational performance.

Despite these problems, supervisors and employees we talked to during our review, as well as other studies and surveys, indicated that PMRS and other performance management systems have been successful in improving expectation setting in the federal workplace. It will be important to build on that progress by incorporating more effective feedback tools in future performance management systems.

There is consensus among the various studies of PMRS, including our own, that performance management systems need to be more flexible, to permit tailoring to the mission and culture of each agency. OPM's recently circulated principles and features for performance management reform provide flexibility and permit agencies to design their own performance management systems with participation from employees and their representatives. We believe that the thrust of OPM's reform proposals are consistent with our recommendations.

Designing new performance management systems will be challenging and improvements will probably evolve over time. A starting point is the recognition that the fundamental objective of a performance management system is to improve organizational performance. We encourage agencies to focus on developing a clear purpose for each element of their performance management system, and to strengthen the elements of the system that are designed to regularly provide realistic feedback on performance such as expectation setting and regular discussion about performance. We also believe it is important that agencies establish, with OPM oversight, evaluation procedures which will routinely provide information and accountability for ensuring that recognition and reward systems result in fair and equitable treatment of all employees.

ISSUES IDENTIFIED IN
GAO AND OTHER STUDIES

PMRS was enacted in 1984 to replace the Merit Pay System which was established under the Civil Service Reform Act of 1978. Its objective was to make improvements to the Merit Pay System and emphasize lump-sum cash awards as an important recognition and reward for exceptional performance. Since that time we have issued a series of reports and testimony on PMRS's implementation (see appendix). Our most recent report, Federal Performance Management: Agencies Need Greater Flexibility In Designing Their Systems (GAO/GGD-93-57, Feb. 24, 1993), included PMRS as part of an overall effort to examine the key elements of effective performance management systems. PMRS participants, Senior Executive Service (SES) members, and personnel officers with whom we spoke raised fundamental concerns with PMRS. Among these were the perceptions that

-- multiple management decisions based on the appraisal result in inflated or unrealistic performance ratings,

-- it is difficult to distinguish between five summary rating levels (level 5 being outstanding and level I being unacceptable), and

-- awards are too small to motivate employees.

Others, including OPM and the Federal Managers Association, have also studied PMRS and identified similar problems. As part of the PMRS Amendments of 1991, Congress established an advisory committee, the PMRS Review Committee, to review and recommend to OPM improvements to PMRS. In addition, a provision of the Federal Employees Pay Comparability Act of 1990 established the Pay-for-Performance Labor-Management Committee to advise OPM on the design and establishment of systems for strengthening the linkage between performance and pay of General Schedule (GS) employees.

In late 1991, both committees issued reports to OPM. The PMRS Review Committee made recommendations to improve PMRS, and the Pay-for-Performance Labor-Management Committee made recommendations for strengthening the link between pay and performance for GS employees. OPM's proposals for performance management reform address many of the issues identified in our earlier work as well as many of those identified by the two committees.

APPRAISALS ARE LINKED TO TOO MANY MANAGEMENT DECISIONS

Generally, the purpose of performance appraisals is to assess and improve an individual's performance and thereby enhance organizational effectiveness. Unfortunately, our work indicates that, because PMRS performance ratings are used as the basis for multiple management decisions such as pay, awards, promotions, reductions in force (RIFs), and removals, supervisors may inflate them to support or protect their employees. As I will discuss throughout my statement, such a situation can have negative implications for the organization. Among these are:

-- Employees may not be given honest feedback on the need to improve.

-- Employees who are given high ratings but no awards may distrust the system and view pay as not being linked to performance.

-- As more people are rewarded, the size of awards diminish and may be viewed as too small to be motivating.

As cited in a 1991 National Research Council study on Pay for Performance, it is widely understood that the uses of a rating will affect the appraisal outcomes. For example, the same individual might receive different ratings and different feedback if a performance appraisal were used solely to make administrative decisions such as salary adjustments or promotions than if it were used for other purposes such as employee development. The National Research Council's report cited several studies in which a common finding was that ratings used to make decisions regarding salary or other determinations are higher and more lenient than those used for feedback.

Personnel officials at three of the six agencies we visited during our most recent work seemed to endorse this view. They said that ratings were inflated because supervisors did not want to hurt their employees' chances of being promoted, receiving an award or pay increase, or being retained during a RIF. As a result, ratings are not accurate and therefore formal feedback and management decisions based on them may not be appropriate. Similarly, in a 1992 OPM survey, 61 percent of the employees agreed with the statement that, in general, employees receive a higher performance rating than they deserve.

OPM's most recent report to the President and Congress on the PMRS also substantiates the perception that ratings are inflated. It reported that the average performance rating for 1990 (the most recent year for which data are available) was 4.11, as compared to 4.05 in 1989, on a 5 point scale. This increase is consistent with the trend over the 5 year period beginning in 1986. The overall percentage of employees rated at level 4 or above has also steadily increased--from about 68 percent in 1986 to about 80 percent in 1990.

DIFFICULTIES IN DISTINGUISHING LEVELS OF PERFORMANCE

Legislation or regulation allows the flexibility of using three or more summary rating levels for SES, General Schedule (GS), and Federal Wage System (FWS) employees. However, legislation requires five summary rating levels for PMRS employees. Although the agencies that we reviewed complied with the legislation and personnel regulations, personnel officials and employees raised several problems with the performance appraisal process. One problem cited by agency officials was the lack of flexibility in the determination of the number of rating levels they may use, specifically the requirement for a five-level summary rating system for PMRS employees. (The five-level requirement for GS and FWS employees was in effect until April 1, 1992, when OPM revised its regulations to allow agencies to select three to five rating levels for these employees.)

Overall, the personnel officials (20 of 23) and supervisors (19 of 28) that we talked with believed that a five level system inadequately distinguished levels of performance. Several personnel officials and supervisors believed that it was difficult to distinguish among five levels of performance and reasoned that two or three levels would be better. They said that at five levels, the ratings tended to be inflated and that a "fully successful" (the middle level) rating was generally viewed negatively.

A "pass/fail" rating system was suggested by officials in three of the six agencies we visited as a means for separating the performance appraisal from other management decisions and emphasizing its use for feedback and coaching. Thus, promotion and award decisions would be based on specific work accomplishments and, in the case of promotions, judgments about an employee's potential to perform in the target job.

The PMRS Review Committee recommended that appraisals for PMRS employees be simplified by using only two summary rating levels, allowing the agencies to determine the names of the two levels. However, it should be noted that employees responding to a 1989 Merit Systems Protection Board (MSPB) survey did not support a pass/fail system. Only about 25 percent of the 15,939 respondents agreed that the performance rating system should be changed to a pass/fail system.

The PMRS and other performance management systems require that standards of performance be established as the basis for appraisals and that "critical elements" be identified which employees must perform satisfactorily to keep their jobs. Some supervisors believed that they could more effectively rate employees against organizational objectives and specific

70-662 O - 94 - 2

accomplishments than against critical elements. In this regard, we note that the PMRS Amendments of 1991 authorized agencies to use statements of work objectives to establish performance requirements and evaluate job performance against such requirements. These statements of work objectives may be used in lieu of, or in addition to, the critical elements and performance standards.

PMRS AWARDS ARE VIEWED
AS TOO SMALL

Conceptually, a link between pay and performance has strong support in the private as well as public sector. For example, in 1991 we surveyed the employment practices of 130 private companies with at least 25,000 employees and 10 or more employment locations with at least 100 employees. Seventy-eight of the 83 responding companies said that an individual's job performance was of great importance in determining pay. This concept also appears to be accepted by PMRS employees. In a 1989 governmentwide survey conducted by MSPB, for example, about 86 percent of the PMRS employees who responded agreed that a portion of their pay should be based on their individual performance.

Unfortunately, our work on PMRS as well as that of others has indicated that PMRS employees have questioned the success of the performance management systems in rewarding good performance.

Monetary rewards as a motivator were often looked upon as less than effective because of both the relatively low dollar amounts involved and the belief that they were not directly linked to performance. Since PMRS award funds are capped at 1.5 percent of the PMRS aggregate payroll, the more employees who are rewarded, the smaller the average award. Officials we spoke with, as well as other research, consistently pointed out that such small rewards do not motivate employees toward greater performance and can actually demotivate those who do not receive an award, resulting in a no-win situation for the agency.

In part, this problem is exacerbated by an appraisal system used for multiple decisions with the result that ratings tend to be inflated, as I have already pointed out. The increase in both the number of high performance ratings and the number of PMRS employees receiving awards has a direct impact on the value of the awards. For example, in 1986, about 22 percent of PMRS employees were rated at the highest level and received awards with an average value of 2.99 percent of basic pay. However, in 1990, 30.5 percent of PMRS employees were rated at that level and received awards with an average value of 2.60 percent of basic pay. Similarly, the average value of all PMRS awards as a percentage of the recipients' pay decreased from 2.04 percent in 1989 to 1.96 percent in 1990. Assuming a salary level of $50,000, this would translate to a decrease in the size of a PMRS award from about $1,101 in 1989 to about $1,058 in 1990.

We recognize that agencies could provide larger awards by giving them to fewer employees. There is no requirement that everyone with high performance ratings receive awards. The problem can again be traced to the rating. If an individual receiving a high, positive rating does not receive an award, while others with the same apparent rating do get awards, he or she may conclude that the award system is not linked to performance and that they are being treated unfairly. In addition to demotivating the individual, it may negatively affect employees' trust in the system.

Being mindful of current budget concerns, one must note that even with the cap, current PMRS performance awards expenditures in total are substantial. In fiscal year 1990, for example, total performance awards amounted to $110.7 million, or 1.35 percent of total PMRS basic salaries.

<u>EXPECTATION SETTING PROCESS IS</u>
<u>LOOKED UPON MORE FAVORABLY</u>

While I have been discussing what is problematic with PMRS, it is worthwhile to note that the expectation setting part of PMRS as well as other performance management systems is an element that is viewed more positively. For example, personnel specialists responding to a 1988 MSPB survey noted that performance management systems have helped improve supervisors' communications with employees.

Most of the personnel officials and supervisors we interviewed believed that the systems have been successful in setting employee expectations. For example, 16 of the 22 personnel officials who responded believed that expectations were adequately communicated. According to personnel officials at one agency, this communication of expectations is one of the most successful areas of performance management. Further, a May 1992 OPM survey found that 75 percent of approximately 31,000 employees surveyed indicated they believed they knew what was expected of them.

AN UNDERLYING THEME FOR IMPROVEMENT IS GREATER FLEXIBILITY

An underlying theme we found throughout our evaluation and that of others was the need for change and greater flexibility so that agencies could tailor their performance management systems, including PMRS, to their work environments and workforce. In 1989 we reported that 73 percent of the personnel directors surveyed said that PMRS did not meet or only partially met the goals their agencies wanted to achieve through a pay-for-performance system. Although the personnel directors expressed little agreement on how PMRS should be changed, they frequently suggested that agencies be given more flexibility in designing a pay-for-performance system that fits their goals and cultures.

Our more recent work identified similar opinions by personnel and other officials and, in our February 1993 report, we recommended that Congress consider giving agencies the flexibility to better enable them to carry out their missions and manage their human resources. Areas in which greater flexibility might be appropriate are (1) the requirement to link several management decisions, such as promotions and rewards, directly to the appraisal; (2) the number of summary rating levels that agencies are required to use; and (3) the 1.5-percent ceiling on the PMRS pay pool.

The 1991 National Research Council study suggested that federal policymakers consider decentralizing the design and implementation of appraisal and merit pay programs. The study noted that many large private firms with diverse goals and workforces have moved toward decentralized management strategies. In these cases, the home office provides policy and audit functions and the local units design and implement performance evaluation and pay systems.

The PMRS Review Committee also recommended that agencies have additional flexibility in areas such as PMRS coverage and award programs. The Pay-for-Performance Labor-Management Committee recommended that agencies be given the authority to design and administer pay-for-performance programs to satisfy their specific needs, objectives, and workforce characteristics consistent with governmentwide policies and principles.

OBSERVATIONS ON OPM's PRINCIPLES AND FEATURES OF PERFORMANCE MANAGEMENT REFORM

At the mandate of Congress, OPM has been studying ways to improve PMRS as well as its counterpart for GS employees, the Performance Management System. As a result of this work, in May 1993 it issued a working draft entitled "Principles and Features of Performance Management Reform", in which greater flexibility is proposed for agencies to design their performance management systems to better reflect their organizational philosophies and goals. OPM also proposes to merge PMRS and PMS employees into one governmentwide, unified pay system. We believe that the thrust of OPM's reform proposals to provide agencies greater flexibility are consistent with our recommendations.

We note that OPM's proposals provide for a collaborative effort between OPM and agencies in implementing performance management reform. They also call for OPM to provide broad policy guidance and other assistance. While these principles are appropriate, it is less clear what role OPM sees for itself in oversight of performance management reform to ensure adherence to merit system principles.

OPM's working draft on performance management reform recommends temporarily extending PMRS so that (1) the October 1993 merit increases could be paid and (2) agencies would have sufficient time to plan and revise their performance management systems. In the interest of fairness to PMRS employees, we agree that the current cycle should be completed. We are concerned, however, about ensuring that sufficient time is provided to permit agencies to design workable systems with the full participation of employees.

One of the early lessons learned from the implementation of PMRS was that insufficient lead time to prepare for implementing the system contributed to administrative and other difficulties. In our view, implementing the current performance management reform may be even more complex and time consuming since agencies may be significantly revamping entire systems and will need to closely consult with affected employees and their representatives.

Performance management reform will provide some significant challenges to agencies and OPM alike, and improvements will probably evolve over time. A key starting point, in our opinion, is the recognition that the fundamental purpose of a performance management system is to improve organizational performance. We encourage agencies to focus on developing a clear purpose for each element of their performance management systems and to strengthen the elements of the system which are designed to communicate expectations and regularly provide realistic feedback on performance. We also believe it is important that agencies establish, with OPM oversight, evaluation procedures which will routinely provide information and accountability for ensuring that recognition and reward systems result in fair and equitable treatment of all employees.

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This concludes my prepared statement. We would be pleased to respond to your questions.

GAO PRODUCTS RELATING TO THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

Pay For Performance: Implementation of the Performance Management and Recognition System (GAO/GGD-87-28, January 21, 1987).

Pay For Performance: Interim Report on the Performance Management and Recognition System (GAO/GGD-89-69BR, May 18, 1989).

Comments on Reauthorization of the Performance Management and Recognition System (GAO/T-GGD-89-36, July 18, 1989).

Pay For Performance: Agency Personnel Directors' Views (GAO/GGD-89-126FS, September 15, 1989).

Pay For Performance: State and International Public Sector Pay-For-Performance Systems (GAO/GGD-91-1, October 12, 1990).

Workforce Issues: Employment Practices in Selected Large Private Companies (GAO/GGD-91-47, March 13, 1991).

Federal Performance Management: Agencies Need Greater Flexibility in Designing Their Systems (GAO/GGD-93-57, February 24, 1993).

Ms. NORTON. Thank you very much. You have just indicated that it is not clear what role OPM sees for itself in oversight of performance management reform. What in your opinion are some of the key things OPM should see that it should do or its role should be?

Ms. KINGSBURY. Actually, I think I heard Dr. King say that GAO should do that. I don't know that I would necessarily agree with that solution. I think there are a couple of things they need to do in the short term and one, and you have all expressed real concern about this this morning, is to have some real-time oversight over the development of new systems in the agencies, especially the requirement for employee participation, to ensure it is, in fact, happening.

I think if you don't do that and you get to the end of the process and an agency implements a new system that employees have only given lip service to in terms of their involvement, I think that is where the thing is going to come unglued and I think OPM should have more oversight over that.

Second, I think there should be a requirement that OPM have oversight of the established systems so that agencies can routinely gather information about things like whether there is disparate impact in the results of these systems. I have a feeling that if those kinds of programs are not put in place early on, GAO will come along 2 or 3 years from now and look at an agency's implementation of a system, and we will find some of those unintended consequences that you referred to earlier. I think OPM could go a long way to heading that off as a problem.

Ms. NORTON. Do we have those problems already? Do we have disparate impact problems you are able to see already?

Ms. KINGSBURY. We have not done that. We look at our own results on a very regular basis for that purpose. We have not actually done a study recently of the distribution of awards across various groups of employees, but I think it is something that should be done and should be done on a regular basis. There may be reasons for certain outcomes, but I would like to make sure that those outcomes are at least fully understood so that employees don't further mistrust management with respect to the implementation of these programs.

The final point I was going to make was, as Mrs. Morella said earlier, since the beginning of time, it seems performance management systems have been put forward on the theory that they will improve organizational performance. We very rarely get around to measuring whether that happens. We may assert, as we do now, that it is having a negative impact in some ways, but I would like to see some assessment at some point in time of whether or not organizational performance is, in fact, improving with all this flexibility that everyone is talking about giving to managers. That was probably a longer answer than you really needed.

Ms. NORTON. Thank you. Does GAO have any information on the frequency of the use of nonmonetary awards by agencies, something that we were not able to get a lot of information on from OPM?

Ms. KINGSBURY. I am not sure anybody has any information about that. The kind of nonmonetary awards we are talking about are things like plaques and gifts and other forms of recognition that people can display in their offices.

In some quarters we have even seen suggestions that time off might be considered a nonmonetary award, although I would point out that that actually costs some money. Because these are not official personnel actions for the most part, they don't show up in any recordkeeping system. You would have to go back to the original documents in the agency to figure out how many of these things are actually being used and we have not done that.

Ms. NORTON. I am very interested that there is so little interest in these nonmonetary awards. I must live in another world when I see people beam from receiving nonmonetary awards.

Ms. KINGSBURY. I agree, particularly if they are relatively timely. I have had the same experience with my own staff; that if you pop up with an award immediately after somebody has done something, they are really genuinely quite pleased and there is a spill-over effect to the way the other employees feel about it.

Ms. NORTON. You mentioned that one of the more successful management elements has been expectation setting. You mentioned that in your testimony.

You also encourage agencies to continue to strengthen this area. What kinds of improvements do you recommend?

Ms. KINGSBURY. Well, the whole purpose—or the whole way to improve performance, it seems to me, is in improving the understanding between the employee and their supervisor about what is expected and how well the employee is doing along those lines, certainly more frequent feedback and coaching, clearer expectation setting.

One version of OPM's proposal, although Mr. King didn't mention it this morning, that I have seen is a requirement for written expectations. That might be a useful thing to try. The frequency of conversation and the substance of conversation about how things are going, however, is probably the most—the single most important improvement.

Ms. NORTON. I have to leave the hearing for a few minutes unavoidably. Rather than delay you further in appearing before the committee in what has been very useful testimony, in case I don't get back, I am going to ask the ranking member if she would dismiss the hearing.

In the meantime, I am going to ask her if she would preside and continue to ask questions.

Thank you and I hope I will get back in time.

Ms. KINGSBURY. I hope you get back too, and thank you. I would be happy to cooperate.

Mrs. MORELLA. This shows how we work together in a bipartisan manner.

Ms. NORTON. Absolutely.

Mrs. MORELLA [presiding]. I very much appreciated the testimony, as well as the report that you presented to us. One of the things that you mention in your statement is that there is an increasingly large number of employees receiving the performance awards and therefore the pool of funds then is decreased.

Are you saying that we should therefore decrease the numbers to make it more qualitative and therefore there would be more recognition or that they would be worth more? I don't mean monetarily but in terms of their significance.

Is that one of the responses to that?

Ms. KINGSBURY. That is certainly one of the things the critics have suggested. If you give awards to the top 10 percent, just for numbers, those people know they are very, very good and the rest haven't been told they are not any good at all.

If you give awards to 60 or 70 percent of the people, the 30 percent who don't get them get a really stronger message about the level of their performance, which may be fully satisfactory, in fact. They may be making a full contribution.

So I think it has an unintended effect to dilute the awards that is independent of how much money you are talking about.

Mrs. MORELLA. It really would be part of the solution to look at that as one of the difficulties with the current system too. You also mention that PMRS ratings sometimes are confusing for conflicting reasons and therefore they may not result in high morale, productivity, or whatever, and the idea that supervisors may well tend to use it to protect employees, you say, I am quoting you, "against being harmed by the rating, you know, ergo, not promoted or RIF'd."

Do you think that this can be handled by the kind of oversight that would be part of—a preferred system or how do you think——

Ms. KINGSBURY. OPM has actually had pretty good oversight over where that is going. We now have a system where the last time it was measured something like over 80 percent of the employees got ratings in the top two categories.

That doesn't convey very much in the way of real performance information to employees, and may, in fact, lead to considerable confusion because some of those people didn't get awards, and if you have a rating that says you exceed your expectations and you still don't get an award, I think the message is pretty confusing.

Mrs. MORELLA. As you say, those who don't get it really feel terribly inferior.

Ms. KINGSBURY. Well, that is right. Then if in fact the person is doing the job but not very well, it confuses the discussion that has to take place about how well they are really doing, and it is the information about how well they are really doing that is most helpful to them to improve their performance, to get better, and that is really where the core of a good management system needs to be.

Mrs. MORELLA. Do you tend to work with OPM? Do you anticipate that in preparation of the legislation that they will present to this committee that they will be contacting you? Have you already had this kind of liaison?

Ms. KINGSBURY. We have already had some and I think the likelihood that we will have more is enhanced. Mr. King has indicated that he wants to have more and also that I have longstanding personal relationships with a lot of the people at OPM because I used to work there, so I think the communication on this issue will be quite good, and as we go forward and get the information about the legislative proposals, I am sure we will be in a position to offer our advice.

Mrs. MORELLA. Vice President Gore's National Performance Review is currently conducting the general review of Government operations and included in such a review of personnel management systems that is going on now, does the OPM proposal reflect any input from this review as you see it?

Ms. KINGSBURY. As I see it, I think the information is flowing in the other direction. I think the direction the review is taking is substantially being influenced in this area in particular by what OPM has done.

As you know, this proposal is the outgrowth of a 2- or 3-year-long examination of PMRS and I think the NPR folks have been going around asking for information and advice from everybody, to include us and OPM, and I suspect that they are shaping their ideas in large part from this source of information.

Mrs. MORELLA. So it may tend to be compatible by virtue of——

Ms. KINGSBURY. That is right.

Mrs. MORELLA [continuing]. The buggy leading the horse kind of thing?

Ms. KINGSBURY. Exactly. Exactly.

Mrs. MORELLA. Rather than the performance review helping OPM, OPM helping the other. Therefore, I guess you are answering what I had in mind. Do you then think that it would be appropriate for the subcommittee to wait for the Vice President's findings or do you think just working with OPM would be adequate? Again, that gets into what the Chair said about the problem of time limits.

Ms. KINGSBURY. Well, it seems to me that if—I have worked in the executive branch. If Mr. King is developing a legislative proposal, I would be quite startled to find out that he was not in very frequent communication with the NPR people to make sure that where he is is the same place where they are, and if they start coming up with something else. Say, he gives you a proposal the week after the Fourth of July; if in August the NPR people have a new idea that starts percolating in their process, I would fully expect him to be aware of that and be able to go back and revise his legislation accordingly. But for you to sit here until September and wait to do anything at all, doesn't seem to me to be at all necessary.

Mrs. MORELLA. Good. Good. So you see the two of them working together and therefore we should be able to move expeditiously.

Ms. KINGSBURY. Yes.

Mrs. MORELLA. In your statement, you note that many employees told GAO that PMRS awards are too small to serve in a motivational manner.

In the course of GAO's study of the pay-for-performance issue, have you or has GAO determined a threshold level of monetary or nonmonetary award which does serve a motivational purpose?

Ms. KINGSBURY. We haven't, and I am not sure you could do it in the broad sense that your question implies. I think how money is motivating for an individual depends on their own circumstances, how badly they need money, how they feel about the public service aspects of their job, other kinds of questions like that.

We are talking in PMRS, even where you are talking relatively high dollars of salary involved, a 1-percent or 1.5-percent increment on salary is relatively small. That same amount of money for somebody making $20,000 would be a big deal. So it depends on the circumstances of the employees involved.

Mrs. MORELLA. So you see that kind of flexibility as requisite to making that work so that it would be motivational?

Ms. KINGSBURY. Right.

Mrs. MORELLA. Because I think there has really been sometimes cross-purposes in terms of what the rationale was for even doing it, whether it was motivational or not.

In your statement you comment that the PMRS review committee recommended that appraisals for PMRS for employees be simplified by using only two summary rating levels.

You also state, however, that only 25 percent of 15,939 employees responding to a 1989 Merit System Protection Board survey agreed that the performance rating system should be changed to a pass/fail system, which is what Mike Causy explains has been recommended.

Have any more recent studies of this sort been conducted by MSPB or anybody else or any other group?

Ms. KINGSBURY. Actually in our report issued in February that this statement is based on, on page 13 we reported that in 1992, OPM's employee survey, and they do a regular survey every year, showed that 65 percent of the employees responding wanted to keep five rating levels, despite the fact that everybody is saying—managers and supervisors are certainly saying—that five is not workable and fewer than that are desirable.

I think it depends on the individual situation and the flexibility to choose two or three or four or whatever works locally, provided employees also buy into it, is fine. I don't think there is one answer out there.

Mrs. MORELLA. I wonder why so few employees favored such a pass/fail system.

Ms. KINGSBURY. From the employee's perspective, and let me go back to a fact I reported a few minutes ago. Eighty percent of the employees covered by PMRS are getting ratings that say they exceed fully successful in their expectations or are outstanding in meeting their expectations.

Those employees, when they think about a pass/fail system, are going to go back to being told they are OK and not much more than that. They meet their expectations. I think employees have probably gotten some psychological value out of high ratings and they are going to lose that in a pass/fail system.

That would be my guess.

Mrs. MORELLA. Did you find that there was any rating that they did seem to prefer, or just, again, to have the multilevels——

Ms. KINGSBURY. I think they prefer a rating that actually communicates and is used for the purpose for which it was designed. I think part of the problem we have here, and one of the reasons we have inflated ratings, is that they are used for purposes other than feedback and how well you are really doing on performance.

They are used for deciding whether you get extra points in a RIF. They are used for pay decisions; they are used for other purposes. I think if you could sort out the purpose for the rating and do the rating for that purpose, employees overall would find the system desirable.

Mrs. MORELLA. Were there differences to be discerned among different departments or agencies, for instance, NIH or NHTSA or HHS in some way? Were there differences that seemed to be aligned with different agencies, departments?

Ms. KINGSBURY. Well, we only looked in our study at six agencies and we selected them to be a mix of types of work, among other things, as well as size of agency and so forth, and overall, although I am not sure I can give you the numbers involved, the impression that I have from the work is that in agencies where what employees do is countable, is quantifiable, and you can set expectations in quantifiable terms and people meet those expectations or do better than that, the process seems to work a little bit better.

In agencies where what they are doing is very subjective, carrying out of a responsibility, the kind of thing I do, managing a group, I think then probably the more subjective it is, the less satisfactory it is as a means of rating people for purposes of pay and that sort of thing.

Mrs. MORELLA. I just had one final question to ask you, Ms. Kingsbury. In your statement you agree with OPM's recommendations to complete the current cycle of PMRS as a matter of equity and fairness to the current PMRS employees and to allow time for agencies to prepare for the transition to a unified pay-for-performance system.

You do caution, however, that sufficient time must be provided to permit agencies to be able to design a workable system with the full participation of employees and note that this may be, as you said, even in your initial comments, more complex and time consuming than was the implementation of PMRS since the agencies may be revamping their entire pay systems.

In GAO's opinion, how much time should be given to agencies to prepare for possible transition to a unified pay for performance system? Have you thought about that?

Ms. KINGSBURY. There is really two aspects of this. I think we probably need to separate them. One is the people who are being paid under PMRS, who have pay at a whole variety of different levels within a grade. They need to be reabsorbed back into the pay structure of the General Schedule system, and that is a matter of passing the law and writing regulations and doing it.

And OPM tells us that they expect it to take 3 to 6 months from the passage of the law to make that happen. That is a reasonable period of time for that transition. The thing I am concerned about, and the thing I am referring to, perhaps not as clearly as I could have in my statement, is the development of an alternative rating structure, or rating system, and the involvement of employees in how that system is going to operate.

That can be a very complex issue, particularly if you are really serious about negotiating with the employees, and I certainly share your concern about that. I also share Mr. King's conviction that that is the way it ought to work.

I am less optimistic than he is that it is going to work that way spontaneously. I have been through that myself. I have negotiated a union agreement. I have had that kind of responsibility as an agency manager before I came to GAO. If you do it well and you do it right, it takes patience and time, and I think OPM needs to be sensitive to the amount of time it may take agencies to do that. I think a year to do that is probably optimistic.

Mrs. MORELLA. So his attitude is great, attitude is altitude, but you have got to do something more tangible to make sure that is worked out in agencies and you think that allowing time to make sure it is done well, possibly a year, would be appropriate?

Ms. KINGSBURY. Yes.

Mrs. MORELLA. Makes sense. Repeated references have been made during today's hearing to the reports of the PMRS Review Committee and the Pay for Performance Labor Management Committee.

If there is no objection, I will enter them into the record at this time.

[The information referred to follows:]

PAY-FOR-PERFORMANCE
LABOR-MANAGEMENT COMMITTEE

STRENGTHENING THE LINK BETWEEN PAY AND PERFORMANCE

The Report
of
The Committee

NOVEMBER 1991

EXECUTIVE SUMMARY

The Pay-for-Performance Labor-Management Committee was established by the Director of the Office of Personnel Management (OPM) as authorized by section 111 of the Federal Employees Pay Comparability Act (FEPCA) of 1990 (Public Law 101-509). The Committee consisted of a Chairman; five management Committee members from OPM and from the Departments of Agriculture, Defense, Health and Human Services, and the Treasury; and six union Committee members from the American Federation of Government Employees (two members), the American Nurses Association, the Public Employee Department (AFL-CIO), the National Federation of Federal Employees, and the National Treasury Employees Union.

The Committee's responsibility was to advise OPM on the design and establishment of systems for strengthening the linkage between the performance of General Schedule employees and their pay. This report presents the Committee members' thoughts and conclusions regarding that issue. The Committee's report results from Committee meetings and discussions; briefings by various Government, union, and academic representatives; review of authoritative literature, documents, and reports pertaining to pay-for-performance; specific views and ideas submitted by Federal agencies, employee organizations, professional associations, and individuals; and contributions from individual Committee members. Among the reports reviewed was the National Academy of Sciences' National Research Council report entitled, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*.

The Committee was charged with examining the extremely complex and controversial issue of the future role of pay-for-performance for General Schedule employees. It performed this task through a constructive dialogue between labor and management. The Committee process represented an effort to build on a foundation of FEPCA, which itself resulted from a cooperative undertaking to achieve a fair and competitive compensation system for Federal employees.

The Committee members agreed that a number of issues must be addressed in designing a pay-for-performance system. They concluded that:

- There is insufficient empirical evidence that pay-for-performance programs are uniformly effective. Further, there is no empirical evidence that merit pay programs are effective. In fact, programs which focus on the adjustment of base pay are particularly costly. In addition, there are fundamental differences between private firms where pay-for-performance programs have had some appeal, and Federal Government agencies, which emphasize public service and are highly diverse and unionized. The National Academy of Sciences conducted a rigorous review of the evidence, as did the Pay-for-Performance Labor-Management Committee and the Performance Management and Recognition System (PMRS) Review Committee. This Committee, therefore, concluded that

Governmentwide implementation of any new pay-for-performance system for General Schedule employees should be preceded by a period of extensive and comprehensive experimentation involving a variety of programs that are tailored to the contextual conditions of Federal agencies and their subcomponents. Such experimentation would be outside the current demonstration project authority of chapter 47 of title 5, United States Code, and would include group incentive plans, gainsharing, pay banding, and other innovative approaches to linking pay to performance.

- Evidence presented to the Committee indicated that uniformity and predictability in base pay adjustments are of particular importance to employees and to their perception of the fairness of any pay-for-performance system. Although the current General Schedule system for measuring and rewarding performance is often criticized, the Committee believes that it is a workable pay-for-performance system. Agencies have appraisal systems in place, employees must be at least satisfactory in order to receive within-grade increases, and quality step increases may be used to accelerate outstanding employees through the pay range. In this regard, the General Schedule system parallels the PMRS, except that above-satisfactory PMRS employees are automatically entitled to accelerated increases and are more likely to receive bonuses when they are rated above fully successful. What is often lacking in managing the General Schedule system is a commitment to use the flexibilities that are authorized under current regulations governing performance and incentive awards to recognize employee accomplishments. Rather than replacing one base pay adjustment system with another, the Federal Government may be well served by a renewed focus on, and dedication to, improved management of the current General Schedule system. In this way, the existing linkages between pay and performance can be made stronger without the trauma and cost of a major system change. However, as mentioned above, agencies should be allowed to experiment with alternative pay-for-performance programs.

- The FEPCA guarantees must be fully implemented and pay-for-performance must not be used as a cost-saving device. In its deliberations the Committee operated under the assumption that FEPCA would be fully funded in each budget year. Credibility can only be derived for pay-for-performance systems if the underlying base pay systems are not manipulated for funding purposes. Accordingly, the General Schedule and any other pay-for-performance program must be funded so that employees consider payouts to be meaningful. The failure to properly fund a pay-for-performance system, or to require it to be budget-neutral, would result in adverse consequences for both the Federal Government and its employees. These would include problems such as reduced public service, hostile employee relations, furloughs, staff reductions, and difficulty in recruiting and retaining highly skilled employees. Given current budget constraints, the Committee recognizes that fully funding a Governmentwide pay-for-performance system as an alternative to the General Schedule would be extremely difficult. Additional sources for funding pay-for-performance programs beyond base pay should include budgetary reprogramming flexibility and cost savings outside of salaries and expenses.

- Consistent with Governmentwide policies and principles and the Committee's guidelines for strengthening the link between pay and performance, Federal agencies should be given the authority to design and administer individual pay-for-performance programs to satisfy their specific needs, objectives, workforce characteristics, and organizational culture. Agency heads should be provided broad discretion to delegate authority to appropriate levels to address workforce diversity and organizational culture requirements. Deregulation will facilitate multiple, varying experiments, and new statutory authority will provide alternatives to demonstration projects, the requirements of which the Committee believes are too restrictive and cumbersome. The Committee accepted that there would be differences in pay-for-performance programs and that proposals and experiences should be widely shared to offer opportunities to agencies to cover employees performing similar job functions.

- Pay-for-performance programs must ensure that employees are treated fairly and equitably and must give full consideration to the nature and diversity of the workforce. These are vital and necessary ingredients of any system designed to strengthen the link between pay and performance. Federal managers must establish a relationship of trust and respect with their employees and must not consider non-performance related factors in making ratings and other determinations. Federal agencies will remain responsible for achieving fair and equitable treatment of employees and for meeting their equal opportunity obligations in designing and implementing pay-for-performance programs. There is a strong need to ensure that all classes of employees are treated fairly by any pay-for-performance system. In addition, no pay-for-performance experiments should be permitted to continue where there is evidence of adverse impact on any class of employees. In this regard, OPM provided the Committee with summary data which caused concern among members about the distribution of performance ratings and performance-based actions among minority groups. The Committee believes that the matter must be studied further by appropriate organizations, such as OPM, EEOC, GAO, and Federal agencies themselves. The Committee also points out that it is important to ensure that procedures, performance measures, and payout determinations are fair, and that employees are provided due process in resolving grievances and disputes.

- The Committee recognized that any pay-for-performance efforts to improve the link between pay and performance must have meaningful input by all participants. This involvement must go beyond the current 5 U.S.C. chapter 43 requirements and include employee input into the design, implementation, and evaluation of pay-for-performance programs. The Committee agreed that employee support and commitment cannot be assumed. It can be obtained through formal structures such as collective bargaining, peer committees, focus groups, and joint labor-management committees. The Committee also agreed that adversarial labor-management relations would be destructive to the process.

While there was substantial agreement on the foregoing issues, the one area of significant disagreement concerned the scope of collective bargaining that should be applied to the design and implementation of pay-for-performance systems. The report discusses these issues and the Committee's perspective in detail.

The report is organized into six major sections followed by a glossary, abbreviations, and appendixes. The first major section describes the events and issues that led up to forming the Committee and the process followed during its deliberations. Subsequent sections examine four major issues raised by the Committee: Flexibility, Funding, Fair Treatment, and Employee Involvement. Each of these issues is examined in detail and, where appropriate, differing views are presented. A final section summarizes the members' conclusions and recommendations.

PAY-FOR-PERFORMANCE
LABOR-MANAGEMENT COMMITTEE
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William H. Hinkle
Department of Health and Human Services

Robert M. Tobias
National Treasury Employees Union

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American Nurses Association

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National Federation of Federal Employees

TABLE OF CONTENTS

THE COMMITTEE: BACKGROUND AND PROCESS

Origin: The Federal Employees Pay Comparability Act of 1990

The Federal Employees Pay Comparability Act (FEPCA), enacted November 5, 1990, as Public Law 101-509, established a new pay setting system for General Schedule employees. The main purpose of the Act was to provide a fair, equitable, and cost-effective way of compensating Federal white-collar employees.

Section 111 of FEPCA (codified at 5 U.S.C. § 5301 note) stated that it is the policy of Congress that systems be developed under which the linkage between the performance of General Schedule (GS) employees and their pay will be strengthened and that those systems should be flexible and adaptable to the needs of different agencies and organizational components. In addition, FEPCA required the U.S. Office of Personnel Management (OPM) to establish a Pay-for-Performance Labor-Management Committee (PFPLMC) and authorized the Committee to advise OPM on the design and establishment of systems for strengthening the linkage between the performance of General Schedule employees and their pay. The statute provides that any legislation needed to implement pay-for-performance systems should be enacted in time to permit their implementation by October 1, 1993.

Charter

On February 15, 1991, the OPM Director established the PFPLMC by filing the Committee charter with the General Services Administration (GSA) in compliance with the Federal Advisory Committee Act of 1972 (FACA). The charter:

- Sets out the purpose, scope, responsibilities, and administrative procedures to be followed by the Committee;

- Provides that OPM shall furnish the Committee administrative and other necessary support;

- Establishes that the Committee will terminate within 60 days after the release of its report to OPM; and

- Identifies the Associate Director for Personnel Systems and Oversight, Claudia Cooley, as the Designated Federal Official (DFO) for the Committee.

The Committee's charter is reproduced in appendix A.

Membership

The statute called for 12 Committee members, as follows:

- A chairman with education, training, and experience as an expert in compensation practices;
- An OPM employee designated by the Director of OPM;
- A Department of Defense employee designated by the Secretary of Defense;
- Three employees designated by their agency heads from agencies selected by the OPM Director based on their substantial numbers of General Schedule employees; and
- Six individuals appointed by the OPM Director to serve as representatives of employee organizations that represent substantial numbers of General Schedule employees. (The law said OPM must consider the relative numbers of General Schedule employees represented by various organizations. However, no more than three members could be appointed from a single organization or affiliation of organizations.)

By April 15, 1991, all 12 members had been officially designated in writing by their agencies or appointed by the OPM Director. Committee members are:

Ronald E. Brooks	Office of Personnel Management
Mary E. Carter	Department of Agriculture
Fred Garza, Jr.	Department of Defense
William H. Hinkle	Department of Health and Human Services
Lucille A. Joel	American Nurses Association
John F. Leyden	Public Employee Department, AFL-CIO
George T. Milkovich	Cornell University
John W. Mulholland	American Federation of Government Employees
Charlene J. Robinson	Department of the Treasury
John N. Sturdivant	American Federation of Government Employees
Robert M. Tobias	National Treasury Employees Union
Sheila K. Velazco	National Federation of Federal Employees

The Chairman, Dr. George T. Milkovich, is Catherwood Professor of human resource management at the Center for Advanced Human Resource Studies at Cornell University and had chaired the National Academy of Sciences' Committee on Performance Appraisal for Merit Pay. More background information about the members and other support staff is provided in appendix B.

The Committee acknowledges the valuable support provided by OPM's staff in the Office of Labor Relations and Workforce Performance and the Office of Systems Innovation and Simplification. The names of staff are listed in appendix B. In particular, the Committee recognizes the support of Allan Heuerman, Dr. Doris Hausser, Nancy Randa, and Patricia Stewart.

Members' staffs also provided outstanding support. The Committee especially acknowledges Deborah Arrindell, David Dingee, Robert E. Edgell, Paulianne Elliott, Frank Ferris, Joan Golden, Conrad U. Johnson, Paula D. Lucak, the OPM Atlanta Region's Interagency Advisory Groups, Frank Padalino, and Kenneth Smith.

Objective

The Committee's objective was to formulate a report to the OPM Director. FEPCA stated that the Committee should make recommendations on:

- Guidelines for pay-for-performance systems, including the criteria to be used in determining eligibility for and the amount of increases in basic pay above the midpoint of the pay range;
- The role organizational performance should play in pay-for-performance systems;
- Any differences in pay-for-performance systems for different categories of employees;
- The role for employee organizations in the implementation and operation of pay-for-performance systems;
- The types of pay raises to be covered; and
- Whether demonstration projects on pay-for-performance are desirable.

At the Committee's first meeting, Director Constance Berry Newman noted that OPM had no agenda for the Committee except serious discussion of possible linkages between pay and performance. The Committee had a clean slate to explore all issues surrounding pay-for-performance, she explained. She added that it was unnecessary to prepare a consensus report. Where differences of opinion arise among members, the Committee should surface and air the issues. If differences then persist, the report should simply indicate the range of members' thoughts, she said.

A full list of Committee meetings and presentations is provided in appendix C.

Process: Three Phases

Based on careful consideration of its objective and possible ways to accomplish it, the Committee adopted a three-phase process, as follows:

Phase One: Information-Gathering. The first phase focused on defining the issues and challenges for the Committee by gathering and examining ideas and information from a wide variety of sources.

During this phase, the Committee surveyed available research and resources regarding performance-based pay. Members reviewed numerous reports and studies on performance evaluation and performance-based pay systems (including the report on pay-for-performance by the National Research Council (NRC) of the National Academy of Sciences) and other pertinent information. The documents the Committee reviewed are listed in appendix D.

Additionally, the Committee listened to briefings by an array of subject-matter experts with a broad spectrum of views on pertinent issues. For example, they heard presentations by such experts as Donna Beecher, OPM's Assistant Director for Systems Innovation and Simplification; Dr. W. Edwards Deming; Barbara Fiss, OPM's Assistant Director for Pay Policy and Programs; John Palguta, Deputy Director of the Office of Policy and Evaluation, U.S. Merit Systems Protection Board (MSPB); Sara Boney Ratcliff, Deputy Assistant Secretary of Defense for Civilian Personnel Policy and Equal Opportunity; Bernard Ungar, Director of Human Resource Management, General Government Division, General Accounting Office (GAO); and John Zalusky, the AFL-CIO's Assistant Director of Economic Research. Briefing topics included:

- The NRC Report, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*;
- GAO, MSPB, and OPM reports on Federal, State, and international performance management and pay-for-performance practices;
- Experiences of unions and agencies with existing Federal performance management systems, gainsharing programs, etc.; and
- Results to date of pertinent demonstration projects.

Furthermore, the Committee gathered extensive field input via OPM Regional Office Advisory Groups, which included 126 managers and personnel officials from a cross section of organizations throughout the country. Feedback from these groups was summarized at periodic intervals and used by the Committee in its discussion of issues as well as in its consideration of model programs.

The Committee also solicited alternative and innovative proposed approaches to performance management from the personnel directors of all Federal agencies that comprise the Interagency Advisory Group, from presidents of Federal employee unions having national consultation rights, and from organizations with a known interest in the subject--in all, over 100 addressees. A total of 22 responses were received. Appendix E includes an executive summary of the responses.

Finally, the Committee sought public input from any interested party. Each Committee meeting was publicized through a notice in the *Federal Register*. These notices explained how individuals or groups could participate in the Committee's process. In appendix D, the inputs that were received are listed as supporting documents.

In summary, the Committee made diligent efforts to obtain and review information from myriad sources, to explore a wide range of ideas and opinions, and to consider various new approaches to performance evaluation and pay-for-performance.

Phase Two: Issue Consideration. The second phase of the Committee's work focused on the issues identified by the Committee. The Committee used the resources available to members and their staffs, as well as OPM support staff, to get diversity and perspective before the Committee and to explore alternative ways of considering the issues. Members discussed issues in the context of a framework consisting of general policy guidelines and a set of possible model pay-for-performance programs.

The Committee considered information gathered during the first phase. In addition, Committee staff generated briefing papers to focus the issues. The members devoted several meetings to exploring flexibility, adequate funding, cost control, employee involvement/labor relations, fair treatment, model programs, program implementation, and program evolution, among other issues.

Phase Three: Report Formulation. In the third phase, the Committee determined areas of agreement and disagreement on the issues. Through full and frank discussion, members clarified their thinking on various points. They identified divergent interests and attempted to reconcile them where possible. In some areas, they reached consensus. Where members differed with respect to an issue, the range of their views was recorded for incorporation into this report.

Public and Private Sector Experience Considered

In the course of its three-phase process, the Committee reviewed a wide range of private and public sector pay-for-performance experience. The NRC Report contains an extensive review of private sector research and practice in the areas of performance appraisal, merit pay, and individual and group incentives. The Committee weighed this evidence along with other input in its deliberations.

The NRC Report also summarizes Federal experience with pay-for-performance. FEPCA was not the first effort to strengthen the performance-pay link for white-collar Federal workers. Some observers trace this effort back to the Civil Service Reform Act of 1978 (CSRA). However, while CSRA inaugurated the Federal Merit Pay System, the attempt to tie Federal white-collar pay to performance is far older. The linkage of pay to performance has evolved since 1949. The "acceptable level of competence" determination for within-grade increases, the quality step increase, the Merit Pay System and its successor, the Performance Management and Recognition System (PMRS), and some of the demonstration projects conducted under 5 U.S.C. chapter 47 authority are all aspects of the Federal pay-for-performance experience.

FLEXIBILITY

From its inception, the Committee had a mandate to address flexibility. Its authorizing legislation stated as national policy that the Federal Government should institute a pay-for-performance system that would "provide flexibility to adapt to the different needs of different agencies and organizational components."[1] This call for flexibility was echoed in virtually all the research and presentations considered by the Committee, including the NRC Report, which states that it is impossible to "generalize about which pay-for-performance plans work best--especially for the federal government, with its considerable organizational and work force diversity."[2]

The challenge for the Committee, therefore, was to develop recommendations for a flexible Federal pay-for-performance system that could be tailored to and supportive of the wide range of organizations and occupations that make up the General Schedule workforce. The Committee responded to this challenge by recommending an overall Federal pay-for-performance system comprised of several general guidelines to which individual pay-for-performance programs, which would be tailored to specific organizational settings and needs, must adhere. (See Exhibit 1, **Guidelines for Strengthening the Link Between Pay and Performance.**) The Committee accepted that there would be differences among individual pay-for-performance programs, including differences in payouts above base pay.

The **Guidelines** were developed around three stages of building and operating specific pay-for-performance programs:

- DESIGN--choosing pay-for-performance features and following a process;
- EXECUTION--actually implementing or "rolling out" the pay-for-performance program and administering it in a way that supports its becoming an integral part of the organization's operations; and
- EVOLUTION--using processes for evaluation, adjustment, and renewal to keep the pay-for-performance program relevant and assure that its objectives are met.

The Committee further agreed that the flexibility needed to permit tailored approaches would require deregulation and decentralization of authority. The Committee, therefore, recommends that Federal agencies should be given the authority to design and administer individual pay-for-performance programs to satisfy their specific needs, objectives, workforce characteristics, and organizational cultures.

In addition, agency heads should be provided broad discretion to redelegate authority to appropriate agency sublevels to address the specific needs, organizational cultures, and workforce differences within agencies. The Pacer Share Project negotiated between AFGE and the Air Force and the pay-for-performance programs developed jointly between the NTEU and IRS serve as examples.

GUIDELINES FOR STRENGTHENING THE LINK BETWEEN PAY AND PERFORMANCE

DESIGN

FEATURES

- Clear Objectives. State clearly the purposes, objectives, or desired outcomes.
- Funding/Costs. Adequate funding must be provided.
- Flexible Features. Tailor to occupations and operations to be covered.
  - Coverage. Specify which organizational units and employees are covered.
  - Measures. Specify performance and evaluation measures.
  - Payouts. Specify mechanics and nature, including any limits, timing, base v. bonus.

PROCESS

- Representative Involvement/Employee Participation. Ensure that all relevant parties (employees, managers, their representatives, approving authorities) are involved in the design process, with collective bargaining requirements met when represented employees are to be covered.
- Technical Assistance. Involve experts appropriately in the design process.
- Support System Planning. Anticipate and obtain necessary approval, funding, resources, and other commitments to ensure needed support structure and processes are in place.
- "Phase-In" and Adjustment. Test to check for and correct design flaws.

EXECUTION

IMPLEMENTATION AND ADMINISTRATION

- Administrative Roles and Responsibilities. Clarify the duties, rights, and responsibilities of participants with the goal of keeping the program useful and useable.
- Communications and Training. Assure understanding and skilled use of performance planning, feedback, measurement, recognition, and payout mechanisms.
- Dispute Resolution. Use appropriate processes to ensure fair treatment of employees and to handle disputes.

INTEGRATION WITH OPERATIONS

- Involvement of Line Management. Ensure commitment by delegating appropriate performance management responsibilities to line supervisors and holding them accountable.
- Employee Involvement and Participation. Provide for ongoing participation by employees and meet collective bargaining obligations for organized workers.
- Management of Human Resources. Integrate with the organization's overall human resource plan.

EVOLUTION

- Assessment and Change. Conduct ongoing, internal monitoring to determine the need for adjustments.
- Review and Evaluation. Conduct internal and external oversight and evaluation against objectives.

Exhibit 1

Finally, the Committee considered how the Federal Government should proceed in implementing the Governmentwide pay-for-performance system encompassed by its Guidelines. The Committee recommends that Governmentwide implementation of any new pay-for-performance system for General Schedule employees should be preceded by a period of extensive and comprehensive experimentation involving a variety of programs that are tailored to the contextual conditions of Federal agencies and their subcomponents. Experiments would meet the criteria set out in the Guidelines and might include group incentive plans, gainsharing, pay banding and other innovative approaches to link pay to performance. Experimental programs and experiences should be widely shared, thus offering agencies opportunities to cover employees performing similar job functions.

The Committee bases its recommendation for experimentation on a number of facts that became evident through a review of relevant research, including the NRC Report, presentations by experts before the Committee, and the deliberations of the Performance Management and Recognition System (PMRS) Review Committee.

First, the Committee found insufficient empirical evidence that pay-for-performance programs are uniformly effective. Further, there is no empirical evidence that merit pay programs are effective. In fact, programs which focus on the adjustment of base pay are particularly costly, with no evidence available that they enhance either individual or organizational performance. In addition, the limited evidence that seems to indicate some pay-for-performance program effectiveness was in the private sector, and thus may not be transferable to the Federal Government workforce and agencies, which emphasize public service and are highly diverse and unionized.

The current General Schedule system for measuring and rewarding performance is a workable pay-for-performance system. The Committee concluded that the current system, while frequently underutilized or even misused, continues to provide Federal agencies with a workable national pay-for-performance system. The Committee believes that the current system, given a renewed emphasis on the proper utilization of available features, could be used to significantly strengthen the links between pay and performance. The Committee found that many of the links frequently cited by pay-for-performance advocates already exist in the current system but, for a variety of reasons, have not always been recognized or used as such. On balance, the Committee believes that the Government may be better served by keeping the existing system and managing it better. The Committee further concluded that the current system provides a suitable framework for program experimentation and modeling at the agency level.

The Committee also concluded that its recommended experiments, including pay banding, should be outside the current demonstration project authority of 5 U.S.C. chapter 47. In this regard, the Committee members believe that the chapter 47 demonstration project requirements should only be applied to programs that clearly fall outside the broad Committee Guidelines. They expressed concerns with several aspects of the chapter 47 demonstration project process that make formal demonstration projects undesirable vehicles for testing the range of possibilities under a flexible, decentralized pay-for-performance system. The areas of concern include: the limitation of 5,000 employees per project; the lengthy and burdensome notification and approval process; the high cost of a comprehensive, rigorous evaluation to meet the requirements of chapter 47 and those of various oversight groups; the administrative burden of collecting project evaluation data; and the perceived lack of meaningful sunset provisions.

The Committee recognizes that experiments should have an evaluation component, but, as with the program itself, responsibility for the evaluation should be within the organization conducting the experiment. The evaluation should emphasize gathering and analyzing data that is useful to those administering, and participants in, a pay-for-performance program, in order to help them improve that program. OPM should make resources available upon request to assist agencies with evaluation. The evaluation results should give agencies and labor organizations data on the results of a multiplicity of projects to aid them in deciding if changes to their programs are required and to provide information on what works and what does not.

NOTES

1. Section 111 of *The Federal Employees Pay Comparability Act of 1990*, Public Law 101-509.

2. National Research Council, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*, National Academy Press, Washington, DC, 1991, p. 165.

FUNDING

Research and experience have shown that pay-for-performance plans must be adequately funded to be successful. A recent GAO study of State and international governments points to inadequate funding as one of the most common weaknesses in merit pay programs.[1] The Federal Merit Pay System experience has also taught us the lesson of what can happen when a "revenue neutral" system results in some employees receiving less than they would have under a pre-existing system. On the other hand, the PMRS is significantly better funded and more generous than both the former Merit Pay System and the current General Schedule system (see figure 1 in appendix F). Yet, there is no empirical evidence as to whether or not there has been a corresponding improvement in organizational efficiency or in the overall performance of covered employees. In fact, statistics indicate that not only are PMRS employees better paid than General Schedule employees, but fewer of them are rated below satisfactory (see figure 2 in appendix F). Accordingly, the question is whether the Federal Government can design, fund and implement pay-for-performance systems that are effective both in terms of cost and efficiency.

The NRC study on pay-for-performance characterizes an organization's decision to adopt a pay-for-performance policy as an assessment of trade-offs among performance, equity, and costs.[2] Unless the organization and stakeholders believe that an acceptable balance can be struck among these factors, the policy may not benefit the organization. For example, if the added costs are not offset by some measured improvement in individual/organizational performance, or if perceptions of equity are not improved or at least maintained, then the investment may not be justified. Part of the dilemma is that the expectation of enhanced performance is premised on an assumption that payouts will be significant enough to act as an incentive for employees. Although this would generally argue for investing a higher level of resources in pay-for-performance, organizations may be reluctant to do so given the uncertainty of the effect on performance and equity, especially in settings where performance is not easily measured.

The Committee examined in its deliberations some of the intricacies of this trade-off dynamic as it might play out in the Federal sector. In particular, the members devoted considerable discussion to funding options, cost considerations, and equity issues.

Equitable Pay

The Committee strongly recommends that existing base pay and the method by which employees progress through the rate range not be used to fund a pay-for-performance system. The Committee believes that to do otherwise is not efficient or cost-effective and will be rejected by employees. This conclusion is supported by the NRC Report, which points out that employee performance will not increase unless employees are satisfied that the system is fair. According to the NRC study:

"If pay for performance is to contribute to perceptions of equity in compensation systems, the base from which it builds should be perceived as equitable and fair. At the present time, there is nearly unanimous agreement that federal pay is not competitive with private-sector pay in many regions."[3]

Sources of Funds

The Committee members recognized that with the passage of FEPCA, the Federal Government will be required to increase its budgetary allocations significantly to support the increases envisioned in the new pay law. The annual increases based on the Employment Cost Index (ECI) are scheduled to commence in January 1992, and the yearly cost to bring Federal workers to comparability in their geographic areas will start in 1994. These facts led the Committee to conclude that agencies would not have additional money available for pay-for-performance programs within the salary and expense account of their budgets absent increased funding.

Thus, the Committee considered ways to fund individual agency pay-for-performance programs for General Schedule employees. Two basic options were discussed:

- Reallocating funds within current agency budgets; and
- Additional funds appropriated by the Congress to support agency-specific programs.

Reallocating Funds within Current Agency Budgets. Under this option, agencies could economize in personnel or other areas to transfer those resources to fund pay-for-performance programs, assuming that the added funding could be justified either by employee-generated savings or by an expectation of higher level organizational performance. Some demonstration projects have taken advantage of this flexibility to fund increases for high performing individuals or groups by cutting back on staffing levels or filling behind departing senior staff with entry level hires. The Committee reiterates that total reliance on savings as a funding source is not a feasible alternative.

Appropriating Additional Funds. The Committee expressed its concern that a Governmentwide awards program similar to PMRS would not be successful due to funding and award distribution issues.

The Management members expressed concern about the inclusion of large numbers of non-supervisory employees in the PMRS and the steadily increasing costs of the PMRS. Much of the increased cost can be attributed to ratings inflation and accelerated base pay adjustments. As a result, the Management Committee members do not view a merit pay system as a fiscally viable alternative for General Schedule employees.

The Committee agreed that Congress should appropriate additional funds for pay-for-performance programs. They also agreed that agencies should be granted reprogramming authority within their appropriations to bring savings realized from other accounts into the salaries and expenses account to support pay-for-performance initiatives. Cost savings realized through productivity enhancements and shared with employees should be retained in the agencies' budgets. The Committee recommends that no Governmentwide minimum or maximum limits be placed on pay-for-performance funding and awards.

Committee members cautioned that sunset provisions should be applied to pilot and experimental programs and that such programs should be evaluated to ensure that they are cost effective and beneficial to organizations. In addition, the Committee agreed that non-monetary incentives should be authorized and encouraged.

Conclusions

While the Committee recognized that there are no easy answers to the funding dilemma, the members reached conclusions on some issues:

1. The current General Schedule method by which employees progress through the rate range is less costly than PMRS. Substantial additional funds and other resources would be required to implement a Governmentwide merit pay system for General Schedule employees.

2. There is evidence that merit pay systems are extremely costly, and there is no evidence that they are effective tools for increasing employee or organizational performance.

3. Additional funding will be necessary to make agency-unique pay-for-performance programs work. If agency programs cannot be adequately funded to the extent that payouts are meaningful to employees, they should not be implemented since they will not be an effective investment.

4. Any newly designed systems or programs should provide a guarantee for base pay to continue at the level of the current system, so no employee will be "harmed."

5. Agencies should have flexibility to fund individual programs as long as base pay guarantees are met.

6. Pay-for-performance designers should have the flexibility to offer non-cash incentives as an available option to participants in organizational enhancement programs.

NOTES

1. General Accounting Office, *Pay for Performance, State and International Public Sector Pay-for-Performance Systems*, Report No. GAO/GGD-91-1, October 1990.

2. National Research Council, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*, National Academy Press, Washington, DC, 1991, p. 96.

3. Ibid., p. 32.

FAIR TREATMENT

Fair and equitable treatment of all employees is vital to strengthening the link between pay and performance. Employees must feel that they are receiving such treatment if they are to accept pay-for-performance. The Committee acknowledges the responsibility of agencies to achieve fair and equitable treatment and meet Equal Employment Opportunity (EEO) obligations.

In its deliberations, the Committee approached the issue of fair treatment in terms of the related concepts of **consistency**, **trust**, and **lack of bias**. With respect to consistency, the Committee acknowledges that "fair" need not mean uniform, but rather equitable and predictable. Employees will buy into systems that are understandable and offer some stable, attainable rewards.

With respect to trust, the members acknowledge that fair treatment begins with an overall relationship of mutual trust and respect between supervisors and their employees. In the performance management area, members noted that trust must attach to every aspect of pay-for-performance beginning with the establishment of job requirements, through job performance discussions, performance assessments, and allocation of payouts.

With respect to lack of bias, the Committee acknowledges that employees must feel confident that factors unrelated to performance will not affect the assessment of their performance nor any allocation of related rewards. Federal agencies must continually work to ensure a clear line of sight between performance and rewards, unsullied by factors like racial or ethnic bias, political affiliation, or even personal dislike.

Achievement of these fair treatment objectives is tested in two major ways. First, the performance assessments and their related consequences, both positive and negative, must be examined for evidence of bias or disparate treatment of protected groups, e.g., women and minorities. Second, perceptions of fair and equitable treatment must be monitored. The key perceptions of interest in assessing the fairness of pay-for-performance are perhaps most easily captured by two simple questions for employees:

1) **Are you getting your fair share?**

2) **Are you being treated fairly?**

The first question addresses the **distributive justice** of a pay-for-performance system. The second question addresses its **procedural justice**.

Distributive Justice--A Fair Share

According to the NRC Report:

> *"In application to pay, theories of distributive justice suggest that employees judge the fairness of their pay outcomes by gauging how much they receive, relative to their contributions, and then making comparisons against reward/contribution ratios of people or groups they consider similar in terms of contributions."*[1]

In other words, rewards must be commensurate with contributions. Non-performance factors like racial bias should not influence payouts. Another threat to distributive justice arises from differences between payout mechanisms or standards among and within agencies, which may be intensified with greater flexibility and decentralization. The Federal Merit Pay System experience of the early 1980's showed that perceptions of distributive injustice could help lead to the downfall of a pay-for-performance system. The perceived injustice was due to underfunding (with few receiving their expected "fair share") as well as substantial inequities across employee groups and agencies that had developed decentralized approaches. The PMRS "reforms" that followed represented a strong return to consistency across agencies, at least with respect to base pay adjustments.

Thus, the first, distributive justice question addresses the third Merit System Principle, which states:

> *"Equal pay should be provided for work of equal value, . . . and appropriate incentives and recognition should be provided for excellence in performance."*[2]

This merit principle not only requires just pay for satisfactory work, but it also reveals the other side of distributive justice, to wit, that "unequal" work (i.e., superior performance) should earn "unequal" reward (i.e., some incentive or higher payout). However, for employees to perceive higher performance incentives as fair, it is important that they perceive the assessment process as fair. This leads to the second question concerning fair treatment, or procedural justice.

Procedural Justice--A Fair Shake

Employee perceptions of procedural justice are directly related to their perceptions of the procedures used to administer pay. Safeguards are needed against bias and inconsistency in the operation of pay-for-performance mechanisms. According to the NRC Report:

> *"The extent to which employees have the opportunity to participate in pay design decisions, the quality and timeliness of information provided them, the degree to which the rules governing pay allocations are consistently followed,*

> *the availability of channels for appeal and due process, and the organization's safeguards against bias and inconsistency are all thought to influence employees' perceptions about fair treatment.*"[3]

The system must apply rules fairly and consistently and have procedures to redress inequities. Non-performance factors should not influence the functioning of the system with respect to any individual or group. Positive, constructive relationships with unions or management associations representing covered employees will foster employees' sense of fair and equitable treatment by surfacing employees' views.

Once again, the Federal experience with pay-for-performance offers a lesson. The operations and perceptions of the PMRS show how mechanical properties of a system designed with little or no employee participation can damage the credibility of its processes and indeed the entire system. Total spending on performance awards is limited to 1½ percent of aggregate base pay. During the period when minimum performance awards of 2 percent of base pay were required for employees receiving an Outstanding performance rating, this created an absolute limit on the number of Outstanding ratings that could be awarded without exceeding award spending limits. Other forces, such as cost control considerations, also operated to constrain the assignment of particular ratings within organizations. Situations developed where ratings were "rotated" among performers and quotas were applied. The credibility of the assessment procedures was severely compromised, rendering consequent payouts equally suspect and lowering perceptions of fair treatment in general.

Added evidence of procedural injustice is found in reports of employee perceptions of the fairness of awards distributions. At the PMRS level, GAO reported that nearly all the PMRS employees with whom they spoke believed that performance was not a major factor in determining who received performance awards.[4] At other organization levels, the credibility can be just as weak. A local union president addressing the Committee described her installation's award program as a system of favoritism and expressed strong reservations about expanding pay-for-performance in an environment of such substantial procedural injustices as employees going years without receiving performance appraisals.[5]

Despite these problems with some pay-for-performance processes, the Federal Government has existing protective procedures. Current MSPB, Equal Employment Opportunity Commission (EEOC), and administrative and negotiated grievance procedures provide avenues for appeal of unfair treatment.

EEO Considerations

Federal agencies must remain vigilant with respect to the impact of every aspect of pay-for-performance on employees. Performance appraisal systems are subject to the "Uniform Guidelines for Employee Selection Procedures." Serious attention to EEO concerns is particularly critical given the ever-increasing diversity of the Federal workforce. If certain groups receive lower performance appraisals than others, then placing a pay-for-performance system on top of this pattern would only further disadvantage these groups of employees. Pay-for-performance programs should not be permitted to continue where there is evidence of adverse impact on any class of employees.

At the request of a Committee member, OPM provided some summary data concerning the distribution of minority groups and genders in the General Schedule population and the distribution of performance ratings and performance-based actions among those groups. Summary data are shown in table 1 in appendix F. Clearly, there is cause for concern, given the disproportionate numbers of minorities who received lower performance ratings. The reality behind these data is complex. For example, although some racial groups got more than their proportion of low ratings, the differences for awards granted were not as pronounced. Further, the effects of agency, occupation, years-of-service, etc., have yet to be determined. The data deserve further scrutiny. In addition to data review, in some instances, further attention may be warranted; for example, examining individual cases or providing training to eliminate cultural bias from the appraisal process. The data presented here are too highly summarized to permit drawing conclusions. Nevertheless, they serve to sound an alert, and the issues they raise must be taken into consideration before imposing any new system. The Committee believes that the matter must be studied further by appropriate organizations such as OPM, EEOC, GAO, and Federal agencies themselves.

Conclusions

Committee reactions and positions varied somewhat on these issues, but several points of agreement emerged.

Some members felt that fair treatment and EEO considerations were major issues that must be resolved before pay-for-performance can move forward. Other members suggested that given the current legal and regulatory framework, existing grievance procedures and EEO guidelines should be allowed to function in pay-for-performance, since a system that is fair to all employees will inherently address the interests of minorities and women.

The Committee considered several particular approaches to this issue, including:

- Improving current dispute resolution procedures, including greater use of expedited procedures;
- Insisting that agencies correct any adverse impact situations before a program could begin;
- Requiring that action on problems occur as part of any start-up activities for a pay-for-performance program; substantial improvement in any adverse impact situations would be required within a time limit to avoid forfeit of the authority to continue the pay-for-performance program; and

- Creating a Governmentwide joint labor-management committee to study system data and advise agencies on how to assess and address local situations of disparate treatment.

The Committee reached agreement on three issues and makes the following recommendations:

1. **Dispute Resolution Procedures.** At a minimum, preserve current mechanisms and systems that are in place for employees to raise claims that they have been treated unfairly or discriminated against under a pay-for-performance program.

2. **Agency Responsibilities.** First, at a local level, the Committee stresses the need for individual agencies to meet their obligations with respect to EEO and fair treatment considerations. Although the problems may be detectable at a Governmentwide level, the solutions must be implemented locally. The increased flexibility that agencies may well have under a pay-for-performance system, and the fact that employees may have more to gain and lose under agency pay-for-performance plans, will require an even greater level of awareness and commitment. It is strongly urged that Federal agencies take the opportunity during the developmental stage of any new pay-for-performance program to re-examine their current performance management programs to eliminate racial, ethnic, or gender bias. Agencies should take special care to cover the fair treatment and EEO aspects of performance management and pay-for-performance programs in their evaluation processes. Working with appropriate employee representatives, care should be taken to assess employee perceptions of distributive and procedural justice.

3. **Governmentwide Leadership.** To ensure compliance with EEOC Guidelines and Merit System Principles, the Committee recommends that OPM take an active role in the regular evaluation of agency programs. Additional guarantees of fair and equitable treatment will come from reviews by OPM, GAO, MSPB, agency inspectors general, and Congressional oversight, as well as employee organizations. OPM and Federal agencies should prepare from the beginning for such reviews and evaluations, with agencies maintaining the information necessary to achieve effective program evaluation.

NOTES

1. National Research Council, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*, National Academy Press, Washington, DC, 1991, p. 92.

2. 5 U.S.C. § 2301(b)(3).

3. National Research Council, op. cit., p. 93.

4. General Accounting Office, *Pay-for-Performance: Interim Report on the Performance Management and Recognition System*, Report No. GAO/GGD-89-69BR, May 1989.

5. Presentation to the Committee by Deborah E. Witherspoon, May 29, 1991.

EMPLOYEE INVOLVEMENT

This section discusses the immediate and potential implications of this report's **Guidelines** pertaining to employee participation and involvement with respect to designing and executing pay-for-performance.

The Committee's **Guidelines**, as discussed in the **Flexibility** section, include:

- **DESIGN/Process: Representative Involvement/Employee Participation.** Ensure that all relevant parties (employees, managers, their representatives, approving authorities) are involved in the design process, with collective bargaining requirements met when represented employees are to be covered.

- **EXECUTION/Integration with Operations: Employee Involvement and Participation.** Provide for ongoing participation by employees and meet collective bargaining obligations for organized workers.

The Committee recognized that any pay-for-performance efforts to improve the link between pay and performance must have meaningful input by all participants. This involvement must go beyond the current 5 U.S.C. chapter 43 requirements and include input into the design, implementation, and evaluation of pay-for-performance programs by both represented and non-represented employees. The earliest presentations and discussions surfaced this issue. According to the NRC Report, "the extent to which employees have the opportunity to participate in pay design decisions . . . [is] thought to influence employees' perceptions about fair treatment."[1] Several briefers recommended increased employee participation as an important objective in reforming Federal performance management.[2] In addition, descriptions of successful demonstration projects and other experiments highlighted the importance and influence of employee involvement.[3]

The Committee agreed that employee support and commitment cannot be assumed. It can be obtained through formal structures such as collective bargaining, peer committees, focus groups, and joint labor-management committees. The Committee also agreed that adversarial labor-management relations would be destructive to the process.

Noting that the Federal workforce is the most highly organized workforce in the United States, where approximately 75 percent of the eligible General Schedule workforce is represented by unions, the Committee recognized that statutory obligations to bargain with those unions will play a significant role in implementing pay-for-performance programs. Where employees are members of a bargaining unit, i.e., are represented by a union, the nature of the employee involvement is governed by the provisions of the Federal Service Labor-Management Relations Statute (FSLMRS)[4] and can be further affected by negotiations between labor and management required by the FSLMRS.

When employees elect a particular labor union to represent them, that union becomes the exclusive representative for all the employees in the bargaining unit, regardless of whether unit members are union members, and the union is required by law to represent all employees in the unit fairly.[5] Also, the recognition of a union as the exclusive representative of a group of employees requires that management must deal with that exclusive representative on matters such as pay-for-performance programs that affect conditions of employment for those employees.

Negotiating within the terms of the current FSLMRS is the basic approach that has been used for involving union-represented employees in the development and implementation of pay-for-performance programs. The parameters of the FSLMRS place several limitations on the permissible scope of bargaining. Those limits include a prohibition against bargaining over matters specifically provided for by Federal statute, matters inconsistent with a Governmentwide rule or regulation, and matters that interfere with a "reserved management right."[6] For example, the Federal Labor Relations Authority (FLRA) and the courts have interpreted the management right of directing employees and assigning work to preclude bargaining over the content of performance standards.

Committee deliberations over the issue of employee involvement in the design and implementation of pay-for-performance programs included extensive discussions over whether the current scope of bargaining should be expanded for purposes of implementing pay-for-performance in the Federal workforce. The following discussion presents Labor and Management members' views on this issue.

Labor Members' Views

Labor members of the Committee noted that in the early 1980's, the Federal Government did try to circumvent the FSLMRS and its negotiations requirements by unilaterally implementing a pay-for-performance system through OPM regulations. This action resulted in several successful lawsuits against OPM, many Congressional committee hearings, six revised drafts of the regulations, and the withdrawal of the Director of OPM's renomination. Labor members stressed that renewed unilateral attempts to impose pay-for-performance programs will meet with the same failure and should not be repeated.

While the FSLMRS requires negotiations over pay-for-performance, Federal labor-management relations under the law have engendered an extremely adversarial environment where bargaining gets bogged down in litigation over procedural matters and minor disputes, with negotiations and dispute resolution processes typically going on for years. Negotiations over pay-for-performance under the current law will take place within, and be subject to the influence of, the current adversarial environment. Simply overlaying pay-for-performance over the current and flawed Federal labor-management relations program encompassed in the FSLMRS bodes especially poorly for the establishment of successful pay-for-performance programs, which by their nature require meaningful employee involvement and union cooperation and support in order to succeed. The futility of pursuing programs that require such employee involvement and support within the current Federal labor-management relations program is confirmed by GAO, when it states in its recent report, *Federal Labor Relations: A Program in Need of Reform*, that:

> *"It makes little sense to try and implement a new employee involvement program in which cooperation between agency management and unions is essential when the ongoing labor-management relations program suffers from excessive litigation and adversarial proceedings. Accordingly, we believe the policies and processes governing federal labor-management relations need a major overhaul to provide a new framework that*
>
> - *motivates labor and management to form productive relationships to improve the public service;*
> - *makes collective bargaining meaningful;*
> - *improves the dispute resolution processes; and*
> - *is compatible with innovative human resource management practices that emphasize employee involvement, team-building, and labor-management cooperation."*[7]

Collective bargaining under the FSLMRS suffers several inherent flaws that will work to impede effective negotiations and serve as a barrier to meaningful employee involvement and the cooperative approach essential for establishing successful and effective pay-for-performance programs. The law's current limits on the scope of bargaining and its broad management rights clause will minimize and/or prohibit meaningful employee input as to program design and implementation. The law's emphasis on management rights in determining what is bargainable encourages a proliferation of disputes rather than the necessary cooperative approach, as has been demonstrated by the literally thousands of such disputes that have marked the history of Federal labor-management relations since enactment of the FSLMRS. Mechanisms for resolving these disputes under the FSLMRS are costly, cumbersome, and extremely time-consuming, further aggravating the adversarial environment that the law's limited scope of bargaining and its broad management rights clause have engendered.

Full-scope collective bargaining over pay-for-performance offers the only avenue for avoiding the controversy, delay, and litigation that have characterized Federal labor-management relations under the FSLMRS and its limited scope of bargaining, broad management rights clause, and ineffective dispute resolution mechanisms. In addition, full-scope collective bargaining will ensure the meaningful employee involvement in all aspects of pay-for-performance programs that the Committee agreed is vital to the success of such programs. Bargaining over all aspects of pay-for-performance programs and the meaningful employee involvement that full-scope bargaining would allow will also enhance employees' commitment to and support of those programs. Furthermore, full-scope collective bargaining over pay-for-performance programs complements and will contribute to the flexible and decentralized approach recommended in the Committee's **Guidelines**.

Short of the major overhaul of the Federal labor-management relations program under the FSLMRS that GAO recommends in its report, legislation along the lines of the Federal Employees Flexible and Compressed Work Schedules Act of 1982 (FCWSA)[8] could be enacted to allow expanded collective bargaining over pay-for-performance programs covering organized Federal General Schedule employees. Such statutory language would permit negotiations over pay-for-performance to the maximum extent possible without regard to management rights and could provide for an expedited procedure to resolve bargaining impasses over the development and implementation of pay-for-performance programs.

The success of pay-for-performance programs in the Federal workforce will rise or fall on the ability of labor and management to structure such programs cooperatively. Cooperative program development is not possible under the current adversarial Federal labor-management relations program. Labor members of the Committee firmly believe that collective bargaining under the FSLMRS will have to be expanded so that management and employees through their union representatives can act as partners. This expansion must occur before there can be even the slightest chance of success for pay-for-performance.

Management Members' Views

Management members of the Committee believe that the FSLMRS strikes a careful balance among the rights of employees, unions, and management. The scope of bargaining under the FSLMRS ensures full and effective employee involvement in the design and implementation of pay-for-performance programs. At the same time, it allows management the authority to set, and the ability to achieve, organizational and mission goals and to effectively manage and control personnel costs. As discussed in detail below, an FCWSA-type of scope of bargaining on such issues would seriously hinder management's ability to perform these functions.

Management members believe that agencies and unions should cooperate in pay-for-performance programs and that all parties should be involved in every step of the process. However, they are concerned that expanded bargaining over pay-for-performance programs will create unacceptable fiscal pressure and risks that would be incompatible with effective financial management and cost control throughout the Federal Government. Although this report recommends that base pay be consistent throughout the Federal Government and not subject to negotiations, if the scope of collective bargaining is expanded contrary to the Committee's recommendation, program costs will be determined through negotiations, with an outside party making the final decision where the parties cannot reach agreement.

Accordingly, agencies will be unable to ensure that unfunded pay-for-performance systems are not negotiated and implemented. This will invariably cause employee morale problems, as well as furloughs, RIF's, and staff reductions.

The management-retained rights that were negated by the FCWSA are not comparable in breadth, scope, or impact to those which would be involved should the pay-for-performance area be subject to unrestricted negotiations. In this regard, the FCWSA is quite narrow in its intrusion into management's right to assign work, involving only the manner in which work schedules may be arranged. Under the FCWSA, the head of an agency may determine that a work schedule proposed by the union would have an adverse agency impact. The Federal Service Impasses Panel (FSIP) has authority to resolve such issues. If FSIP finds an adverse agency impact, it must resolve the issue in the agency's favor. However, of major concern to agencies is that while FSIP has on occasion found adverse agency impact, this is rare, and agencies normally have a very difficult job proving such an impact. In addition, where FSIP finds no adverse agency impact or where the agency makes no such allegation, the agency and the union must bargain over what work schedule will go into effect, even when such schedules would not increase the efficiency of the Government. In cases where management and the union cannot reach agreement, FSIP makes the decision. Management members are quite concerned that impasses are frequently decided by private sector arbitrators, who would make major decisions affecting Federal appropriations.

Agencies can often offset the adverse effects of ill-conceived alternative work schedules that do not provide for optimum coverage of activities. However, application of the FCWSA prototype to pay-for-performance systems would have serious consequences since it is less likely that management will be able to invoke its authority to make final decisions concerning the assignment of work and arguments regarding budgetary impacts will be open to routine review by third parties. Moreover, the FCWSA concept would create a duty to bargain over the actual content of performance standards (what and how much work an employee is expected to perform). This is significant since, under the current FSLMRS, performance standards are not negotiable. In this regard, FLRA and the courts have consistently held that the determination of performance standards, individual and organizational, is at the core of successful management of an agency's mission. Low or inappropriate work standards and expectations can have an adverse impact on an agency's ability to accomplish its mission activities or to meet Congressional mandates. Management members indicate that, although they believe it is appropriate and useful to obtain employee input into performance standard determinations, it would be dysfunctional and inappropriate to subject this core management authority to the collective bargaining process, including third-party determinations by FLRA, FSIP, and the courts. They further note that with the decentralized flexibilities contemplated, the number, types, and amount of incentive awards will be negotiable. Such a broad scope of bargaining could result in employee furloughs and RIF's that could become directly attributable to the implementation of bankrupt pay-for-performance systems that are inconsistent with the statutory funding constraints of the Federal budget process.

Management members believe that unions already enjoy a broad scope of bargaining that provides for appropriate input by represented employees. They argue that under the current FSLMRS, agencies must negotiate matters involving conditions of employment which are within their discretion and otherwise not inconsistent with law or regulation. The only exception is where a law or regulation vests in an agency exclusive authority or discretion over a matter, such as the classification of positions, which is specifically barred from negotiations as a general exclusion to the scope of bargaining under the FSLMRS. Management members also point out that since any newly-developed pay-for-performance systems would also apply to employees who are subject to the Classification Act, the implementing legislation should specify clearly that base pay will not be subject to negotiations.

Management members indicate that "reserved management rights" are extremely limited in dealing with union proposals involving appropriate arrangements for employees who are adversely affected by management's exercise of its rights.[9] FLRA, FSIP, and the courts have held that such union proposals may interfere with management rights provided they do not "excessively interfere" with those rights. In addition, these members argue that it is already very difficult for management to meet the tests imposed by these bodies or to persuade them that it does not have a duty to bargain in such situations. They further argue that even without an FCWSA-type amendment to the FSLMRS, the scope of bargaining will necessarily increase when agencies are given flexibilities in designing and implementing pay-for-performance programs. For example, if the laws and regulations governing the current within-grade structure are removed, leaving broad pay discretion with agencies, unions will be able to negotiate the rate at which employees accelerate through the pay ranges of agency-established pay-for-performance systems. Agencies wishing to restrict the authority of component organizations could seek to limit such bargaining through agency regulations, but those regulations would be subject to compelling need challenges. As noted, such union challenges are usually successful, and pay matters would be negotiable conditions of employment absent a specific exclusion in the implementing legislation. Accordingly, without such an exclusion, agencies could not expect to argue successfully that a particular proposal affecting pay is not negotiable because the costs associated with the proposal would interfere with the management right to determine the budget. In addition, under an FCWSA prototype, management's failure to negotiate matters that clearly impact the assignment of work (i.e., including performance standards) would be subject to review and final decision by third parties such as FLRA, FSIP, and the courts, whose decisions could very well affect the distribution of workloads and the conduct of agency missions.

Management members of the Committee also indicate that it is inappropriate and beyond the scope of this Committee to recommend a change to the labor-management relations program that is as substantive and far-reaching as is the FCWSA-type legislative proposal. They point out that significant changes such as this which affect the delicately balanced FSLMRS should be considered as a part of a comprehensive review of the Statute and program. Management members vigorously argue that a substantive review of the entire FSLMRS would not necessarily result in expanded bargaining rights for unions in the Federal sector. Management members cite, in support of their position, the same GAO report that was referenced by Labor members (i.e., *Federal Labor Relations: A Program in Need of Reform*), the recommendations of which are stated as follows:

> *"Based on the views expressed to GAO in this study, the problems in the federal labor-management relations program appear to be so widespread and systemic that piecemeal technical revisions would not be a workable solution. Accordingly, GAO is not making any specific recommendations for changes to the program. Rather, GAO recommends that the appropriate committees of Congress hold hearings on the state of the program with a view toward establishing a panel of nationally recognized experts in labor-management relations and participants in the federal program to develop a proposal for comprehensive reform."*[10]

Finally, Management members indicate that it is their firm belief that the negotiation of matters clearly affecting the assignment of work is inconsistent with their duty and obligation to accomplish mission requirements mandated by the Congress in the public interest. In addition, they argue that all negotiated provisions affecting Federal spending authority involving appropriated funds must be subject to OMB approval and the availability of sufficient funds.

NOTES

1. National Research Council, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*, National Academy Press, Washington, DC, 1991, p. 93.

2. Presentations to the Committee by Bernard Ungar and John Palguta, May 6, 1991.

3. Presentations to the Committee by Debra Kolodny, Del Nelson, and Brigitte Schay, May 29, 1991.

4. Chapter 71 of title 5, United States Code.

5. 5 U.S.C. § 7114(a)(1).

6. 5 U.S.C. § 7103(a)(14), § 7106(a), and § 7117(a).

7. General Accounting Office, *Federal Labor Relations: A Program in Need of Reform*, Report No. GAO/GGD-91-101, July 1991, p. 76.

8. *Federal Employees Flexible and Compressed Work Schedules Act of 1982*, Public Law 97-221, codified at 5 U.S.C. chapter 61, subchapter II.

9. 5 U.S.C. § 7106(b)(3).

10. General Accounting Office, op. cit., p. 5.

CONCLUSIONS AND RECOMMENDATIONS

The Committee carefully researched and examined a wide range of issues related to the concept of pay-for-performance and its continued or expanded use in the Federal sector. The foregoing sections of the report serve to chronicle the process adopted and followed by the Committee, the issues generated throughout its deliberations, the range of views expressed by those individuals and groups who offered their insights, and the positions ultimately reached by the Committee. This final section of the report will summarize the Committee's specific conclusions and recommendations for strengthening the link between pay and performance for General Schedule employees.

On balance, the Committee concluded that a number of issues must be addressed when designing and/or implementing any pay-for-performance system or program(s). These issues are briefly restated below. The Committee agreed that three critical elements were necessary to serve as a foundation for any pay-for-performance system or program(s) to be effective in the current Federal environment. These are: (1) the need for adequate program funding with a uniform and predictable system for adjusting base pay, (2) the assurance of fair and equitable treatment for all affected employees, and (3) the involvement and participation of affected employees in the design, implementation, and evaluation of such systems or programs. Beyond this, the Committee agreed upon and set forth a set of **Guidelines** to serve those who subsequently become involved in the design, implementation, and/or evaluation of pay-for-performance programs in the Federal Government.

A summary of specific Committee conclusions and recommendations follows:

1. The current General Schedule system for measuring and rewarding performance is a workable pay-for-performance system.

   The Committee concluded that the current system, while frequently underutilized or even misused, continues to provide Federal agencies with a workable national pay-for-performance system. The Committee believes that the current system, given a renewed emphasis on the proper utilization of available features, could be used to significantly strengthen the links between pay and performance. The Committee found that many of the links frequently cited by pay-for-performance advocates already exist in the current system but, for a variety of reasons, have not always been recognized or used as such. On balance, the Committee believes that the Government may be better served by keeping the existing system and managing it better. The Committee further concluded that the current system provides a suitable framework for program experimentation and modeling at the agency level.

   Therefore, the Committee recommends that the current General Schedule system be retained and that agencies be encouraged to focus on and more fully utilize existing means to strengthen the pay and performance linkage.

2. There is insufficient empirical evidence that pay-for-performance programs are uniformly effective and no empirical evidence that merit pay programs are effective.

   During the course of its examination of the pay-for-performance question, the Committee reviewed numerous source documents and received testimony from a number of authorities and interested parties. Based on the evidence presented to the Committee and that found in the relevant research literature on compensation practices, the Committee concluded that there were no usable "road maps" for the Federal Government to follow in its quest to relate pay to performance more directly. In fact, the Committee found no evidence that merit pay systems are effective in either the private or public sector. The same general conclusions were reached earlier by the National Academy of Sciences' National Research Council which reviewed essentially the same body of evidence.

   Therefore, the Committee recommends that any Governmentwide implementation of a new or modified pay-for-performance system be preceded by an extensive period of research, development, and testing of program models that consider contextual conditions which exist within a given agency or its components.

3. Base pay adjustments should be uniform and predictable because of their importance to employee perceptions of the fairness of a pay-for-performance system.

   The Committee concluded that any new or modified pay-for-performance system must provide for Governmentwide consistency, uniformity, and predictability in base pay administration if it is to secure and/or maintain any measure of credibility. Any move away from existing Governmentwide assurances of "like-pay for like-work" within and between agencies would, based on the evidence presented, seriously undermine employee confidence in the Federal pay structure. The Committee believes the current system does provide a base pay framework that employees understand, accept, and would likely seek under any pay-for-performance system. The Committee also concluded that base pay guarantees are necessary to ensure employee "buy in" and confidence.

   Therefore, the Committee recommends that any move to a new or modified pay-for-performance system retain the basic base pay features currently found in the existing system.

4. Increases to base pay under FEPCA must be fully implemented, and pay-for-performance must not be used as a cost-saving device. Further, additional funding will be necessary to make a pay-for-performance system work.

   The Committee concluded that, to be successful, any pay-for-performance system or program must be adequately funded and that payouts need to be considered meaningful by recipients. Based on the evidence reviewed, the Committee further concluded that funding was a central issue that Federal compensation planners needed to address early-on in the process. In the Committee's view, if the Federal Government cannot afford to adequately fund a new or modified system, then such a change should not be considered. The Committee likewise concluded that strengthening the existing links between pay and performance requires that FEPCA be fully funded in each budget year and that existing or emerging pay-for-performance programs not be manipulated for funding purposes.

Therefore, assuming full FEPCA funding, the Committee recommends that additional sources of funding beyond base pay should include the granting of budgetary reprogramming flexibility and the realization of cost savings outside of salaries and expenses.

5. Federal agencies should be given the authority to design and administer pay-for-performance programs to satisfy their specific needs, objectives, and workforce characteristics consistent with Governmentwide policies and principles. Such experimentation should be authorized outside the current statutory demonstration project authority.

   The Committee believes that experimentation with alternative pay-for-performance program models is necessary and timely. The Committee further believes that such experimentation can best be accomplished by applying the Committee's Guidelines within the pay-for-performance framework provided by the existing General Schedule system. The Committee has concluded that the current demonstration project authorities are too restrictive for the purposes of pay-for-performance experimentation; agencies need increased flexibility to gain experience with different program models. The Committee believes that the net result of expanded agency-level experimentation will be an overall increase in the Federal pay-for-performance knowledge base. As this knowledge base expands, it is the Committee's considered opinion that many of the questions raised during its deliberations will be answered based on actual experience gained in Federal agencies.

   Therefore, the Committee recommends that a broad range of flexible approaches to pay-for-performance programs be made permissible under statute for General Schedule employees provided they are consistent with the Committee's Guidelines.

6. Pay-for-performance programs must ensure that employees are treated fairly and equitably and must give full consideration to the nature and diversity of the workforce.

   The Committee concluded that fair and equitable treatment of all employees is vital to any effort to strengthen the linkage between pay and performance. The Committee believes that employees must feel that they are receiving such treatment if they are to support pay-for-performance experiments and the changes that these experiments may bring about in the workplace. In the final analysis, the Committee believes that the issue of fair and equitable treatment can be reduced to two basic questions: "Is the individual performer receiving a fair share?" and, "Is the individual performer being treated fairly?" Lastly, the Committee concluded that the responsibility to assure fair and equitable treatment is ultimately the responsibility of the agencies through the proper interpretation and application of existing policies and procedures.

Therefore, the Committee recommends that Federal agencies continually work to ensure that their programs provide a clear line of sight between job performance and rewards, unsullied by factors like racial or ethnic bias, political affiliation, or even personal dislike.

7. Any efforts to improve the link between pay and performance must have meaningful input from all affected parties.

The **Guidelines** clearly set forth the Committee's conclusion on the necessity for substantive involvement on the part of all affected employees in the design, implementation, and ongoing assessment of pay-for-performance programs. The Committee agreed that employee support and commitment cannot be assumed. It can be obtained through formal structures such as collective bargaining, peer committees, focus groups, and joint labor-management committees. To be most effective, the Committee concluded that a non-adversarial approach to labor-management relations would have the most beneficial short- and long-term results. The parties were unable to agree on whether or not the scope of bargaining should be expanded to include the design and implementation of a pay-for-performance program. The Committee notes that the process it followed, while painful at times, resulted in considerable consensus building.

Therefore, the Committee recommends that affected employees be involved in all phases of the pay-for-performance process--from design and implementation to review and evaluation.

GLOSSARY/ABBREVIATIONS

33

GLOSSARY

adverse impact - when a practice that is neutral on its face produces substantially different rates of selection among different groups in hiring, promotion, or other employment decisions and those different rates work to the disadvantage of members of a race, sex, or ethnic group or other categories protected by law.

base pay - used generally to refer to the amount of pay received as salary in a calendar year, as contrasted with variable pay. In the Federal Government, "basic pay" is the rate of pay fixed by law or administrative action for the position held by an employee, including a special rate if applicable. For some purposes, basic pay also includes locality-based comparability payments, interim geographic adjustments, and special pay adjustments for law enforcement officers.

demonstration project - formal projects that test innovative personnel management practices. Demonstration projects permit the waiver of specified provisions of title 5, United States Code, and related regulations and require OPM approval and evaluation, and public notification. They can cover no more than 5,000 Federal employees. Demonstration projects differ from experiments which, although they fall outside of traditional practice, take advantage of existing flexibilities in law or regulation.

deregulation - the process by which rules and regulations are removed or the authority to make such rules and regulations is delegated to a lower level of the Federal Government.

discrimination - differentiating among individuals based on some legally impermissible factor such as age (over 40), race, color, national origin, religion, sex, or handicap when taking a personnel action.

Employment Cost Index (ECI) - measures changes in compensation costs including wages, salaries, and may include employer costs for employee benefits. (Multiple ECI's are produced by the Bureau of Labor Statistics, covering various combinations of employment sectors.) See Federal Employees Pay Comparability Act (FEPCA).

Federal Employees Flexible and Compressed Work Schedules Act of 1982 (FCWSA) - the act that established both flexible and compressed work schedules as defined in subchapter II of chapter 61 of title 5, United States Code. Flexible work schedules allow employees to determine their arrival and departure times within limits set by management. Compressed schedules allow full-time employees to work a biweekly 80-hour schedule in fewer than 10 workdays. The FCWSA was unique in its approach to collective bargaining because, without specifically amending the Federal Service Labor-Management Relations Statute, it permitted a broadened scope of negotiations over aspects of alternative work schedules.

Federal Employees Pay Comparability Act of 1990 (FEPCA) - pay reform legislation that makes two major changes in the way pay is set for the white-collar Federal workforce. The ECI will be used to calculate the annual nationwide comparability adjustment to General Schedule pay. In 1994, locality-based comparability payments will be implemented in localities where non-Federal sector pay exceeds Federal pay by more than 5 percent. The pay gap in these areas will be reduced to no more than 5 percent over a period of 9 years. In the meantime, in areas where the disparity with the private sector is very great and the Federal Government has difficulty hiring and retaining employees, an interim geographic adjustment is being paid.

gainsharing (also productivity gainsharing) - incentive plans that involve employees in improving productivity to achieve more efficient, effective use of resources. Gains resulting from these improvements are shared with the employees.

General Schedule (GS) - the graded pay system used by the Federal Government for white-collar workers covered by chapter 51 of title 5, United States Code.

GM - pay plan designation for grade 13-15 managers and supervisors covered under the Performance Management and Recognition System. Originally used to designate General Schedule employees covered by the CSRA Merit Pay System.

group measure - assessment of the level of group performance. Group measures are often used as the basis for incentive plan payouts to the individual employees in the group or the group as a whole.

individual measure - assessment of the level of performance of an individual employee.

line of sight - a compensation term that captures an employee's perception of how closely performance is linked to reward. For instance, line of sight is stretched in some incentive plans when the work is rewarded a long time after it is done.

locality pay - rates based on pay surveys that measure the cost of labor in a specified geographic area. See Federal Employees Pay Comparability Act (FEPCA).

merit pay - an approach to making base pay adjustments on the basis of individual performance. In the Federal Government, the Performance Management and Recognition System (PMRS) uses this approach.

merit-pay matrix - a table showing the pay adjustments (e.g., expressed as a percentage) that employees at various performance levels should receive, depending on their place in the salary range.

non-cash incentives - incentive payments not readily exchangeable for cash (e.g., extra time off, plaques or mementos, reserved parking spaces, developmental programs or training).

organizational culture - the composite of shared values, symbols, and cognitive schemes which ties people together in the organization.

organizational values - shared norms and beliefs regarding what is socially, organizationally, and individually right, worthy, or desirable.

Pacer Share - a joint labor-management chapter 47 demonstration project at McClellan Air Force Base, California, that features group measures and gainsharing.

pay bands - the combination of separate job classifications or grades into fewer divisions called bands.

pay-for-performance - pay systems that base some portion of compensation on work performance. Such systems include merit pay plans and variable pay plans. Performance may be measured at the individual or group level.

pay-for-performance program - the application of a pay-for-performance system within an organization. A program could exist at different organizational levels, as long as it met the system's guiding principles.

pay-for-performance system - refers to Governmentwide policies (including laws, regulations, and guiding principles) for the administration of pay-for-performance programs.

pay plan - a systematic method of assigning pay rates or ranges to work levels derived from a job classification system.

pay range - a set of pay rates, from minimum to maximum, for a pay grade or band.

performance appraisal - the act or process of reviewing and evaluating the performance of an employee against performance standards.

performance management - the systematic process by which an agency integrates performance, pay, and awards systems with its basic management functions for the purpose of improving individual and organizational effectiveness in the accomplishment of agency mission and goals.

performance standards - a statement of expectations or requirements established by management for duties and responsibilities at a particular rating level. A performance standard may include, but is not limited to, factors such as quality, quantity, timeliness, and manner of performance.

represented employee (also organized employee) - an employee in a bargaining unit for which a union has been granted exclusive recognition. All eligible employees in such units are represented by the union whether they are union members or not.

variable pay - individual or group cash incentives that do not increase base pay. In the Federal Government, these take the form of Performance Awards and Special Act or Service Awards.

within-grade increase (WGI) - a periodic step increase in basic pay awarded after defined periods of time to employees performing at an acceptable level of competence.

workforce diversity - refers to a mix of racial, cultural, ethnic, religious, age, and gender groups in the workforce.

ABBREVIATIONS

AFGE:	American Federation of Government Employees
AFL-CIO:	American Federation of Labor and Congress of Industrial Organizations
ANA:	American Nurses Association
CPDF:	Central Personnel Data File
CSRA:	Civil Service Reform Act of 1978 (Public Law 95-454)
DOD:	Department of Defense
ECI:	Employment Cost Index
EEO:	Equal Employment Opportunity
EEOC:	Equal Employment Opportunity Commission
FACA:	Federal Advisory Committee Act of 1972 (Public Law 92-463)
FCWSA:	Federal Employees Flexible and Compressed Work Schedules Act of 1982 (Public Law 97-221)
FEPCA:	Federal Employees Pay Comparability Act of 1990 (Public Law 101-509)
FLRA:	Federal Labor Relations Authority
FSIP:	Federal Service Impasses Panel
FSLMRS:	Federal Service Labor-Management Relations Statute (chapter 71 of title 5, United States Code)
GAO:	General Accounting Office
GSA:	General Services Administration
GS:	General Schedule
HHS:	Department of Health and Human Services

IRS:	Internal Revenue Service
MSPB:	U.S. Merit Systems Protection Board
NFFE:	National Federation of Federal Employees
NRC:	National Research Council
NTEU:	National Treasury Employees Union
OLRWP:	OPM's Office of Labor Relations and Workforce Performance
OMB:	Office of Management and Budget
OPM:	U.S. Office of Personnel Management (also USOPM)
OSIS:	OPM's Office of Systems Innovation and Simplification
PED:	Public Employee Department of the AFL-CIO
PFPLMC:	Pay-for-Performance Labor-Management Committee
PMRS:	Performance Management and Recognition System
PMS:	Performance Management System
QSI:	Quality Step Increase
RIF:	Reduction in Force
U.S.C.:	United States Code
USDA:	United States Department of Agriculture
WGI:	Within-grade increase

APPENDIXES

APPENDIX A

COMMITTEE CHARTER

PAY-FOR-PERFORMANCE LABOR-MANAGEMENT COMMITTEE CHARTER

A. OFFICIAL DESIGNATION: Pay-for-Performance Labor-Management Committee.

B. OBJECTIVES AND SCOPE: As authorized by the Federal Employees Pay Comparability Act of 1990 (P.L. 101-509), the committee will advise the Office of Personnel Management (OPM) on the design and establishment of systems for strengthening the linkage between the performance of General Schedule employees and their pay. It shall review available reports and studies on performance evaluation and performance-based pay systems and any other pertinent information. The committee will submit a report with recommendations to the Director of OPM on or before November 5, 1991. The committee will be headed by a chairman and will include other members from organizations representing Federal employees and from Federal agencies.

C. DURATION: The committee is established as of the date of the signing of this charter by the Director of OPM. The committee will terminate within 60 days after the release of its report to OPM.

D. RESPONSIBLE OFFICIALS: The chairman of the committee, who shall be paid at a rate of basic pay for the Senior Executive Service (SES), will be appointed by the Director of OPM and will lead the committee in its deliberations. The Associate Director for Personnel Systems and Oversight, OPM, will serve as the Designated Federal Official (DFO) to the committee.

E. AGENCY PROVIDING SUPPORT: OPM shall provide the committee with administrative and other necessary support. The Director, OPM, or her designee, will fulfill the responsibilities of an agency head as listed in the Federal Advisory Committee Act.

F. COMMITTEE RESPONSIBILITIES: The committee is advisory; its primary responsibility is to advise OPM on the design and establishment of pay-for-performance systems. In carrying out its responsibilities, the committee will review available reports and studies on performance-based pay systems and any other pertinent information and submit a report to the Director, OPM, no later than November 5, 1991. The report shall include recommendations on:

- The types of pay raises to be covered;
- Guidelines and criteria to be used;
- The role organizational performance should play;
- Differences in systems based on different categories of employees;
- The role of employee organizations; and
- Whether demonstration projects are desirable.

Subcommittees of the committee may be formed as necessary.

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G. ESTIMATED ANNUAL OPERATING COSTS IN DOLLARS AND FULL-TIME EQUIVALENTS: The estimated annual operating expenses of the committee are $100,000. These expenses include a part-time SES executive's salary, .75 professional staff FTE, and funds to cover materials and printing expenses incurred by the committee.

H. ESTIMATED NUMBER AND FREQUENCY OF MEETINGS: It is contemplated that the committee will meet on a monthly basis; additional meetings may be scheduled when deemed necessary.

I. FILING DATE:

APPROVED:

Constance Berry Newman
Director, OPM

FEB 15 1991
Date

APPENDIX B

COMMITTEE MEMBERSHIP AND SUPPORT

MEMBERSHIP ROSTER

OF

THE PAY-FOR-PERFORMANCE LABOR-MANAGEMENT COMMITTEE

Mr. Ronald E. BROOKS
Director
Atlanta Region
U.S. Office of Personnel Management

Dr. Mary E. CARTER
Associate Administrator
Agricultural Research Service
Department of Agriculture

Mr. Fred GARZA, Jr.
Head, New Threat Upgrade Program Office
Surface-to-Air Missile Systems Subgroup
Naval Sea Systems Command
Department of the Navy
Department of Defense

Mr. William H. HINKLE
Management Analyst
Strategic Planning Staff
Office of the Commissioner
Social Security Administration
Department of Health and Human Services

Dr. Lucille A. JOEL
President
American Nurses Association

Mr. John F. LEYDEN
Secretary-Treasurer
Public Employee Department, AFL-CIO

Dr. George T. MILKOVICH
(Committee Chairman)
Catherwood Professor of Human Resource Management
Center for Advanced Human Resource Studies
Cornell University

Mr. John W. MULHOLLAND
Director
Field Services Department
American Federation of Government Employees

Ms. Charlene J. ROBINSON
Director
Human Resources Directorate
Department of the Treasury

Mr. John N. STURDIVANT
President
American Federation of Government Employees

Mr. Robert M. TOBIAS
President
National Treasury Employees Union

Ms. Sheila K. VELAZCO
President
National Federation of Federal Employees

RONALD E. BROOKS

Ronald E. Brooks is the current Regional Director of the Atlanta Region of the U.S. Office of Personnel Management. He held previous positions as Chief, Congressional Liaison Office; Assistant to the Deputy Director, Regional Operations; and Area Manager in the Office of Personnel Management. He also held the positions of Deputy Director of Personnel for the Office of the Secretary in the Department of Health and Human Services and Regional Personnel Officer for the General Services Administration. He has a B.A. degree in political science from Southern Illinois University.

MARY E. CARTER

Mary E. Carter is the Associate Administrator of the U.S. Department of Agriculture's Agricultural Research Service. She received her B.A. from LaGrange College, Georgia; her M.S. from the University of Florida; and her Ph.D. from the University of Edinburgh, Scotland. She authored a book, *Essential Fiber Chemistry*, and her research is covered by over 35 patents and technical publications. Awards include the Herty Medal from the Georgia section, American Chemical Society; Presidential Meritorious Rank Awards, 1982 and 1987; election as an American Association for the Advancement of Science Fellow, 1988; and selection as Cellulose, Paper and Textile Division Fellow of the American Chemical Society, 1989. Her research career was in industry with such companies as Deering Miliken, West Point Pepperell, FMC Corporation, and a research institute.

FRED GARZA, JR.

Fred Garza, Jr. is the Head of the New Threat Upgrade Program Office, Surface-to-Air Missile Systems Subgroup, Naval Sea Systems Command, Department of the Navy. He received a B.S. in chemical engineering from Texas College of Arts and Industries, Kingsville, Texas. For almost 30 years, he has held progressively more responsible civilian positions in the engineering/program management field within the Department of the Navy. He has received numerous Performance Management and Recognition System awards and has twice received Quality Step Increases and Special Act Awards.

Mr. Garza is a management representative from the Department of Defense.

WILLIAM H. HINKLE

William H. Hinkle currently serves on the Strategic Planning Staff, Office of the Commissioner, at the Social Security Administration (SSA). His duties include revising and maintaining the Agency Strategic Plan and developing and implementing the new Planning and Budgeting System for the agency. He previously held a leadership role in a wide variety of executive, managerial, and supervisory training and development activities within SSA. In addition to his full-time responsibilities, he also serves as an Adjunct Professor of Management on the graduate faculty of the Johns Hopkins University. He holds a Ph.D. from the University of Maryland.

LUCILLE A. JOEL

Lucille A. Joel is the National President of the American Nurses Association, the oldest and largest professional nursing organization, representing two million registered nurses through 53 constituent member associations. She has received R.N. and Ed.D. degrees, and is a Fellow of the American Academy of Nursing. She is Chairman of the Department of Adults and the Aged, Rutgers University College of Nursing, and also Director of the Rutgers Teaching Nursing Home. Previously, she chaired the Food and Drug Administration's Steering Committee on Nursing and Medical Devices. Her publications include numerous articles on nursing and health issues. She co-edited two books on psychiatric nursing and is a contributing editor to the *American Journal of Health Promotion*. Awards include an honorary doctorate in social sciences from Villanova University and the Faculty Recognition Award from the Organization for Registered Nurses, Rutgers College of Nursing.

JOHN F. LEYDEN

John F. Leyden is the Secretary-Treasurer of the Public Employee Department. The Department represents all State/local and Federal/Postal Government workers affiliated with the AFL-CIO. He has been appointed by the Secretary of Labor to four consecutive terms as a member of the Federal Advisory Council on Occupational Safety and Health, and he served on the Federal Advisory Pay Council.. Mr. Leyden is a veteran of nearly 30 years as a government employee union leader. In 1970, he became the National President of the Professional Air Traffic Controllers Organization (PATCO), serving in that position until 1980. PATCO was a founding union of the PED, which represents some four million workers at all levels of government. As the President of PATCO, Mr. Leyden was an original member of the PED's Executive Board when the Department was chartered as an autonomous arm of the AFL-CIO in 1974.

GEORGE T. MILKOVICH

George T. Milkovich (Chairman) is M.P. Catherwood professor of human resource management at the Center for Advanced Human Resource Studies in the Industrial and Labor Relations School at Cornell University. He has authored over 100 publications dealing with a wide range of issues related to managing human resources. He serves as a consultant to major international corporations, consulting firms, and government agencies. He has received three awards for teaching excellence, and several of his articles have earned scholarly contribution awards from academic and professional associations. He has also served on the board of editors of eight research journals. He has co-authored several books, including two leading textbooks, *Compensation* (3rd edition) and *Human Resource Management* (6th edition). Recently, Dr. Milkovich chaired the National Academy of Sciences Committee on Performance Appraisal for Merit Pay and co-edited its report, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay.*

JOHN W. MULHOLLAND

John W. Mulholland has worked for the American Federation of Government Employees (AFGE) for more than 24 years and is currently Director of AFGE's Field Services Department. The Department plans and implements programs and monitors all aspects of AFGE's pay programs (both white- and blue-collar), administers health and safety programs, and monitors contracting out in the Federal Government. It also administers AFGE's Federal Labor Relations Program, including negotiation and administration of over 30 nationwide labor agreements covering more than 300,000 Federal workers, and processes grievances, arbitrations, impasses, negotiability disputes, unfair labor practice complaints, reviews of arbitration awards, and statutory appeals. The Field Services Department has been in the vanguard of setting the parameters for bargaining by processing more than 727 negotiability appeals.

CHARLENE J. ROBINSON

Charlene J. Robinson is Director, Human Resources Directorate, at the Department of the Treasury, which employs approximately 180,000 employees throughout the United States and overseas. A member of Phi Kappa Phi honor society, Ms. Robinson holds a B.S. in business and management and is a candidate for Executive Master of General Administration at the University of Maryland. She has designed and evaluated Departmentwide programs covering Senior Level, Senior Executive Service, Merit Pay/PMRS, General Schedule, and other employees. Ms. Robinson also advised senior Treasury officials in their roles as members of the National Advisory Commission on Law Enforcement (NACLE), and on the establishment of pay and benefits programs for employees under banking reform legislation.

JOHN N. STURDIVANT

John N. Sturdivant is the National President of the American Federation of Government Employees, AFL-CIO, the largest union for Federal workers, representing over 700,000 government employees. He was first elected to this position in 1988 and reelected in 1991 after serving as Executive Vice President and Administrative Assistant to the Executive Vice President. Mr. Sturdivant also serves as a member of the AFL-CIO Executive Council and of several boards and other organizations dealing with Federal employee issues. Mr. Sturdivant received his B.A. in labor studies from Antioch University and has completed two years of law school at the George Washington University.

ROBERT M. TOBIAS

Robert M. Tobias is the National President of the National Treasury Employees Union, which represents over 150,000 employees in more than 20 Federal agencies and focuses on the interests of white-collar employees outside the Department of Defense. He was elected to this position while serving as General Counsel of the union. He teaches at the George Washington National School of Law and has an MBA from the University of Michigan.

SHEILA K. VELAZCO

Sheila K. Velazco is the National President of the National Federation of Federal Employees (NFFE). She is the first woman ever elected to the presidency of any major Federal employee union. She worked for the Social Security Administration (SSA) as a Claims Representative for more than 17 years and during all that time was an active NFFE member, serving first as a Local officer, then as an NFFE SSA Council officer and National Vice President. She graduated from Indiana University with a degree in Spanish and government and a minor in Latin American studies. Her prior experience includes working in Lima, Peru as a teacher under the auspices of the U.S. Information Agency and serving as a social worker for a farm-worker organization.

ALTERNATE COMMITTEE MEMBERS AND SUPPORT STAFF

Deborah Arrindell	Senior Staff Specialist for Labor Policy American Nurses Association
David Dingee	Labor Relations Specialist National Federation of Federal Employees
Robert E. Edgell	Deputy Director, Field Services Department American Federation of Government Employees
Frank Ferris	Director of Negotiations National Treasury Employees Union
Joan Golden	Chief, Compensation, Leave, and Performance Management Branch, Office of Personnel Department of Agriculture
Paula D. Lucak	Legislative Coordinator Public Employee Department, AFL-CIO
Frank Padalino	Assistant Director of Personnel Policy (Compensation, Evaluation, and Reporting), Human Resources Directorate Department of the Treasury

OPM SUPPORT STAFF

Allan Heuerman	Assistant Director for Labor Relations and Workforce Performance
Doris Hausser	Chief, Performance Management Division
Nancy Randa	Policy and Program Development Team Leader
Peggy Higgins	Chief, Performance Management Branch
Patricia M. Stewart	Principal Staff Assistant to the PFPLMC (Personnel Management Specialist on detail from the Directorate of Civilian Personnel, HQ U.S. Air Force)
Jack Andrews	Personnel Management Specialist
Emily Bennett	Personnel Management Specialist
Lester Bodian	Research Psychologist
Barbara Colchao	Personnel Management Specialist
Jean Davis	Secretary
Robert J. Donovan, Jr.	Personnel Management Specialist Trainee
Marilyn V. Geldzahler	Personnel Management Specialist
Frank L. Milman	Labor Relations Specialist
William Oswald	Mid-Level Associate (on detail from the U.S. Food and Drug Administration)
Efstathia Siegel	Personnel Management Specialist
Rachel Steed-Carlson	Personnel Management Specialist

APPENDIX C

MEETINGS AND PRESENTATIONS

COMMITTEE MEETINGS

Meeting	Date
Meeting One	April 10, 1991
Meeting Two	May 6, 1991
Meeting Three	May 29, 1991
Meeting Four	June 20, 1991
Meeting Five	July 30, 1991
Meeting Six	September 12, 1991
Meeting Seven	October 10, 1991
Meeting Eight	October 24, 1991
Meeting Nine	November 1, 1991
Meeting Ten	November 15, 1991
Meeting Eleven	November 26, 1991

All meetings were held at the U.S. Office of Personnel Management in Washington, DC.

Minutes of all meetings are available to the public in the OPM Library at 1900 E Street NW., Washington, DC 20415.

PRESENTERS LISTED BY MEETING

Meeting One, April 10, 1991:

• Ms. Donna Beecher, Assistant Director for Systems Innovation and Simplification, U.S. Office of Personnel Management: Briefing on the National Research Council Report, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay.*

Meeting Two, May 6, 1991:

• Ms. Barbara L. Fiss, Assistant Director for Pay Policy and Programs, U.S. Office of Personnel Management: History and Current Status of Federal Performance Management and Pay-for-Performance.

• Mr. John M. Palguta, Deputy Director, Office of Policy and Evaluation, U.S. Merit Systems Protection Board: Briefing on MSPB Reports on Federal Performance Management and Pay-for-Performance.

• Mr. Bernard L. Ungar, Director, Human Resource Management, General Government Division, General Accounting Office: Briefing on GAO Reports on Performance Management and Pay-for-Performance.

Meeting Three, May 29, 1991:

• Ms. Debra Kolodny, Director of Cooperative Efforts, National Treasury Employees Union: Briefing on NTEU/IRS Incentive Pay System.

• Mr. Del Nelson, Professor of Management, American River College, CA: Briefing on Pacer Share Demonstration Project.

• Dr. Brigitte Schay, Evaluation Team Leader, Office of Systems Innovation and Simplification, U.S. Office of Personnel Management: Briefing on Findings from Demonstration Projects.

• Ms. Deborah E. Witherspoon, President, National Federation of Federal Employees Local 1442: NFFE's Perspective on Performance-Based Pay.

Meeting Four, June 20, 1991:

• Ms. Sara Boney Ratcliff, Deputy Assistant Secretary of Defense (Civilian Personnel Policy and Equal Opportunity): Department of Defense's Perspective on Performance-Based Pay.

Meeting Five, July 30, 1991:

• Dr. Lester H. Bodian, Research Psychologist, Office of Systems Innovation and Simplification, U.S. Office of Personnel Management: Briefing on Responses to Committee's May 23, 1991, Memorandum Soliciting Ideas and Experiences Concerning Performance Management and Pay-for-Performance.

• Mr. John L. Zalusky, Head of the Office of Wages and Industrial Relations, Economic Research Department, AFL-CIO: AFL-CIO's Perspective on Performance-Based Pay.

APPENDIX D

REFERENCES AND SUPPORTING DOCUMENTS

REFERENCES

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- General Accounting Office: *Blue-Collar Workers: Appraisal Systems Are in Place, but Basic Refinements Are Needed*; Report No. GAO/GGD-87-72, June 1987. (Executive Summary)

- General Accounting Office: *Comments on Reauthorization of the Performance Management and Recognition System*; Statement of Bernard L. Ungar Before the Subcommittee on Compensation and Employee Benefits, Committee on Post Office and Civil Service, House of Representatives, Report No. GAO/T-GGD-89-36, July 1989. (Summary of Statement)

- General Accounting Office: *Federal Merit Pay: Important Concerns Need Attention*; Report No. FPCD-81-9, March 1981. (Digest)

- General Accounting Office: *Pay for Performance: Agency Personnel Directors' Views*; Report No. GAO/GGD-89-126FS, September 1989. (With Appendix I)

- General Accounting Office: *Pay for Performance: Implementation of the Performance Management and Recognition System;* Report No. GAO/GGD-87-28, January 1987. (Executive Summary)

- General Accounting Office: *Pay for Performance: Interim Report on the Performance Management and Recognition System;* Report No. GAO/GGD-89-69BR, May 1989. (Without appendixes)

- General Accounting Office: *Pay for Performance: State and International Public Sector Pay-for-Performance Systems*; Report No. GAO/GGD-91-1, October 1990.

- General Accounting Office: *Performance Management: Appraisal and Promotion Results at the U.S. Customs Service*; Report No. GAO/GGD-90-40, May 1990. (Without appendixes)

- General Accounting Office: *Performance Management: How Well Is the Government Dealing with Poor Performers?*; Report No. GAO/GGD-91-7, October 1990. (Executive Summary)

- General Accounting Office: *Serious Problems Need to be Corrected Before Federal Merit Pay Goes into Effect*; Report No. FPCD-81-73, September 1983. (Digest)

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- Jacques, Elliot: "In Praise of Hierarchy"; *The Harvard Business Review*, January-February 1990. (Abstract)

- Johnson, Eugene K.: *Total Quality Management and Performance Appraisal: To Be or Not To Be? A Literature Review and Case Studies*; Office of Systems Innovation and Simplification, United States Office of Personnel Management, July 1990. (Abstract)

- Kopelman, Richard E., Rovenpor, Janet L., and Cayer, Mo: "Merit Pay and Organizational Performance: Is There an Effect on the Bottom Line?"; *National Productivity Review*, Summer 1991. (Abstract)

- Krefting, Linda A. and Mahoney, Thomas A.: "Determining the Size of a Meaningful Pay Increase"; *Industrial Relations*, XVI:1, February 1977. (Abstract)

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- Longnecker, Clinton O., Gioia, Dennis A., and Sims, Henry P., Jr.: "Behind the Mask: The Politics of Employee Appraisal"; *Academy of Management Executive*, 1:183-193, August 1987. (Abstract)

- Meyer, Herbert H.: "A Solution to the Performance Appraisal Feedback Enigma"; *Academy of Management Executive*, V:1, February 1991. (Abstract)

- Milkovich, George T. and Wigdor, Alexandra K.: *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*; National Academy of Sciences, National Research Council, National Academy Press, Washington, DC, 1991.

- Performance-Related Law (excerpts from title 5, United States Code)

  - •• Chapter 43, Performance Appraisal
  - •• Chapter 45, Incentive Awards
  - •• Chapter 47, Personnel Research Programs and Demonstration Projects
  - •• Chapter 54, Performance Management and Recognition System

- Performance-Related Regulations (excerpts from Title 5, Code of Federal Regulations)

  - •• Part 430, Performance Management
  - •• Part 451, Incentive Awards
  - •• Part 470, Personnel Management Research Programs and Demonstration Projects
  - •• Part 531, Pay Under the General Schedule
  - •• Part 540, Performance Management and Recognition System

- Scholtes, Peter R.: *An Elaboration on Deming's Teachings on Performance Appraisal*; Joiner Associates, Inc., Madison, WI, 1987. (Abstract)

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- U.S. Merit Systems Protection Board: *Toward Effective Performance Management in the Federal Government*; July 1988. (Overview)

- U.S. Merit Systems Protection Board: *Working for America, A Federal Employee Survey: A Special Study*, June 1990. (Executive Summary)

SUPPORTING DOCUMENTS

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- Comparison of Compensation Packages for General Schedule, Merit Pay, and Performance Management and Recognition Systems; Submitted by Charlene J. Robinson, PFPLMC Member, June 20, 1991.

- A Comparison of Pay-for-Performance Programs; OPM Staff, July 30, 1991.

- Cost Effectiveness: Achieving a Balance; Submitted by George T. Milkovich, PFPLMC Chairman, July 30, 1991.

- Discussion Guide: Funding Issues; OPM Staff, June 20, 1991.

- Employee Feedback on Pay-for-Performance; Submitted by Ronald E. Brooks, PFPLMC Member, July 30, 1991.

- Employee Involvement Discussion Paper; OPM Staff, September 12, 1991.

- Federal Personnel Manual Letter 451-6: Productivity Gainsharing Programs; OPM, April 10, 1989.

- From the Private Sector: Guiding Principles for Pay-for-Performance Systems; Submitted by George T. Milkovich, PFPLMC Chairman, July 30, 1991.

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- Funding Discussion Points for October 24 Meeting; OPM Staff, October 24, 1991.

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- Letter from Mary E. Carter, PFPLMC Member, to the PFPLMC Chairman on ideas for alternative performance management systems, July 18, 1991.

- Letter from Herbert R. Doggette, Jr., Chairman, Performance Management and Recognition System Review Committee, to the PFPLMC Chairman inviting the PFPLMC to attend a presentation by Dr. W. Edwards Deming, June 20, 1991.

- Letter from Constance Berry Newman, Director, OPM, to survey participants on survey of Federal employees' opinions about matters affecting them, November 1991.

- Letter from W. R. Riley, Civilian Personnel Officer at the Naval Ocean Systems Center (NOSC), San Diego, to the PFPLMC Chairman on NOSC's demonstration project, July 1, 1991.

- Letter from Raymond J. Sumser, Director of Civilian Personnel, United States Army, to the PFPLMC Chairman on the Total Army Corporate Culture, July 10, 1991.

- Letter from Glenda M. Tate, Director of Personnel, United States Department of Transportation, to the PFPLMC Chairman on concerns about performance ratings inflation, October 4, 1991.

- Letter from Deborah E. Witherspoon, President of NFFE Local 1442, to the PFPLMC Chairman on performance appraisal, awards program, and reduction-in-force, June 14, 1991.

- Memorandum from Donna Beecher, Assistant Director for Systems Innovation and Simplification, OPM, to the PFPLMC Chairman on the cost-effectiveness of demonstration performance management programs, July 26, 1991.

- Memorandum from Mary E. Carter, PFPLMC Member, to the PFPLMC Chairman on potential speakers and issues for the Committee, May 3, 1991.

- Memorandum from Mary E. Carter, PFPLMC Member, to the PFPLMC Chairman on issues for discussion by the Committee, July 26, 1991.

- Memorandum from George T. Milkovich, PFPLMC Chairman, to the Committee on responses to the Committee's call for alternative and innovative performance management ideas, July 24, 1991.

- Memorandum from George T. Milkovich, PFPLMC Chairman, to the Committee on data on performance ratings and performance-related actions for minorities and women, September 3, 1991.

- Memorandum from George T. Milkovich, PFPLMC Chairman, to the Committee on specific pay-for-performance programs, September 6, 1991.

- Memorandum from George T. Milkovich, PFPLMC Chairman, to the Committee on data on the proportion of supervisors to non-supervisors in the Federal white-collar workforce, October 8, 1991.

- Memorandum from Charlene J. Robinson, PFPLMC Member, to the Committee on presentation of model program, October 10, 1991.

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- "Pay-for-Performance: Decisions Reached about Permanent Pay Increases, Bonuses for 1990"; *GAO Management News* (internal newsletter for employees of the United States General Accounting Office), Vol. 17, No. 17, Week of February 19-23, 1990, pages 23-25.

- Pay-for-Performance Issues; Submitted by Charlene J. Robinson, PFPLMC Member, September 12, 1991.

- Pay-for-Performance Models; Submitted by Ronald E. Brooks, PFPLMC Member, July 30, 1991.

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- "Paying Workers to Meet Goals Spreads, but Gauging Performance Proves Tough"; *The Wall Street Journal*, September 10, 1991.

- Public Input to the Committee--Statement by Gary B. Brumback, Ph.D.; Presented by Dr. Brumback at the July 30, 1991, PFPLMC Meeting.

- Public Input to the Committee--Statement by the Chiron Group; Presented by Paul Slattery at the April 10, 1991, PFPLMC Meeting.

- Public Input to the Committee--Statement by the Classification and Compensation Society; Presented by Deborah Truitt at the April 10, 1991, PFPLMC Meeting.

- Public Input to the Committee--Statement by the Federal Executive Institute Alumni Association; Presented by Allan J. Kam at the April 10, 1991, PFPLMC Meeting.

- *Remarks on a Civil Service Rebuilding and Preparing for the 21st Century*; Statement of Constance Berry Newman, Director, OPM, Before the Council for Excellence in Government, September 19, 1991.

- Results of Title VI Demonstration Projects: Implications for Performance Management and Pay-for-Performance; OPM Staff, May 1991.

- Summary of Regional Advisory Group Meetings on Pay-for-Performance Issues; Submitted by Ronald E. Brooks, PFPLMC Member, June 20, 1991.

- Summary of Responses on Pay-for-Performance Issues; Submitted by Mary E. Carter, PFPLMC Member, June 20, 1991.

APPENDIX E

SOLICITATION OF ALTERNATIVE AND INNOVATIVE PERFORMANCE MANAGEMENT IDEAS

RESPONDENTS TO THE PFPLMC'S CALL FOR ALTERNATIVE AND INNOVATIVE PERFORMANCE MANAGEMENT IDEAS

On May 23, 1991, the Committee issued a memorandum soliciting alternative and innovative ideas in the area of performance management. The memorandum was sent to all members of the Interagency Advisory Group, presidents of all unions with national consultation rights, and associations with a known interest in the subject. In all, there were more than 100 addressees.

The Committee gratefully acknowledges the responses received. Organizations that responded to the Committee's call are listed below.

Department of the Air Force

Arms Control and Disarmament Agency

Department of the Army

Defense Communications Agency, Washington, DC

Defense Finance and Accounting Service

Defense Information Systems Agency

Defense Mapping Agency

Department of Defense, Washington Headquarters Service

Department of Education

Environmental Protection Agency

Export-Import Bank of the United States

General Services Administration

Department of the Interior

National Labor Relations Board

National Science Foundation

Department of the Navy

- DOD DMR Laboratory, Washington, DC
- Naval Ocean Systems Center, San Diego, CA
- Naval Surface Warfare Center, Dahlgren, VA
- Naval Weapons Center, China Lake, CA
- Naval Weapons Support Center, Crane, IN
- Navy Public Works Center, Oakland, CA
- Pearl Harbor Naval Shipyard, HI

Responses to the Call for Performance Management and Pay-for-Performance Ideas

Executive Summary

Submissions: The Committee received 22 letters of response from Federal agencies and units or individuals within those agencies, with more than half from the Department of Defense. Seven of the responses address all 12 pay-for-performance system features described in the call for ideas, and four of these describe more than one complete program.

"Take-aways"

- Most submissions addressing the evolution/change issue call for small-scale piloting of new approaches before widespread implementation.
- More submissions center on incremental changes to existing systems than on the advantages or disadvantages of a decentralized approach to pay-for-performance.
- Several submissions recommend a common system for GS, GM, and WG employees.
- In general, the submissions provide more ideas about performance management than about pay-for-performance.

Performance Management

- Two basic directions surface in the proposed approaches to performance management. (1) Some submissions emphasize teamwork and cooperation in developing and/or managing the performance management process. These stress employee involvement and customer input. (2) The others are oriented toward making performance management a more effective tool for achieving managerial objectives. Typically, this involves increasing managers' options for rewarding top performers and motivating poor performers.
- Ideas about how to measure performance fall into three general categories: (1) incremental modifications to the current system (e.g., written standards at one level only); (2) recommendations to replace elements and standards with work objectives, typically linked to work unit and organizational outcomes; and (3) suggestions for additional sources of appraisal information, such as employees themselves, peers, customers, and organizational productivity measures.
- Most submissions refer to individual appraisal only, although a few mention assessment of group or organizational performance.

Pay-for-Performance

- The submissions vary in the extent to which performance is linked to base pay increases, lump-sum awards, or both. The nature of the linkage also varies, although most de-emphasize a direct link between ratings and awards. The size of the proposed payouts also varies.
- While no submissions include a specific cost analysis, most claim that their proposal could meet their objectives without additional funding. Several discuss creating pay pools of a given size specifically for performance-related payouts.

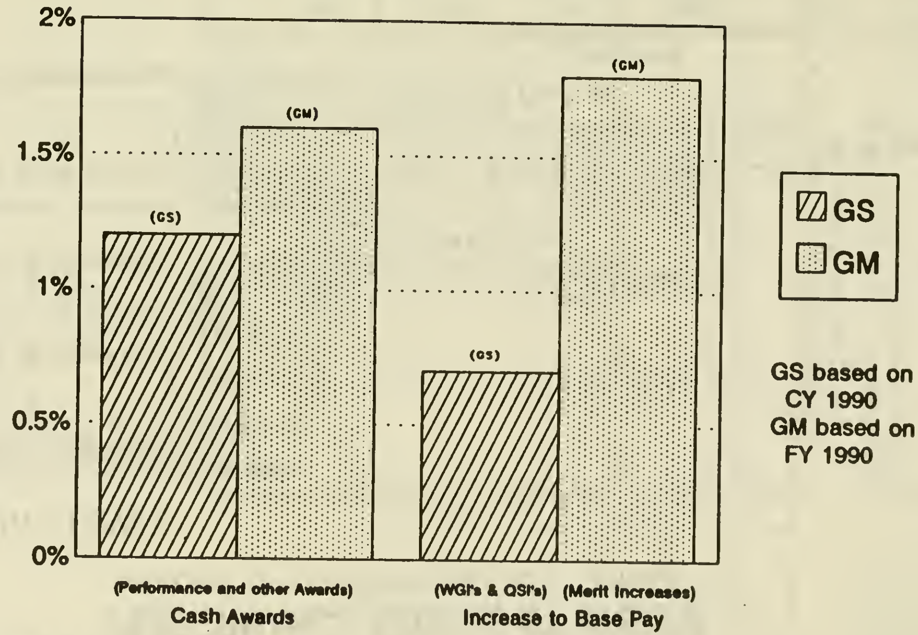
APPENDIX F

FIGURES AND TABLES

77

Figure 1

CASH AWARDS AND INCREASES TO BASE PAY
AS A PERCENT OF PAYROLL

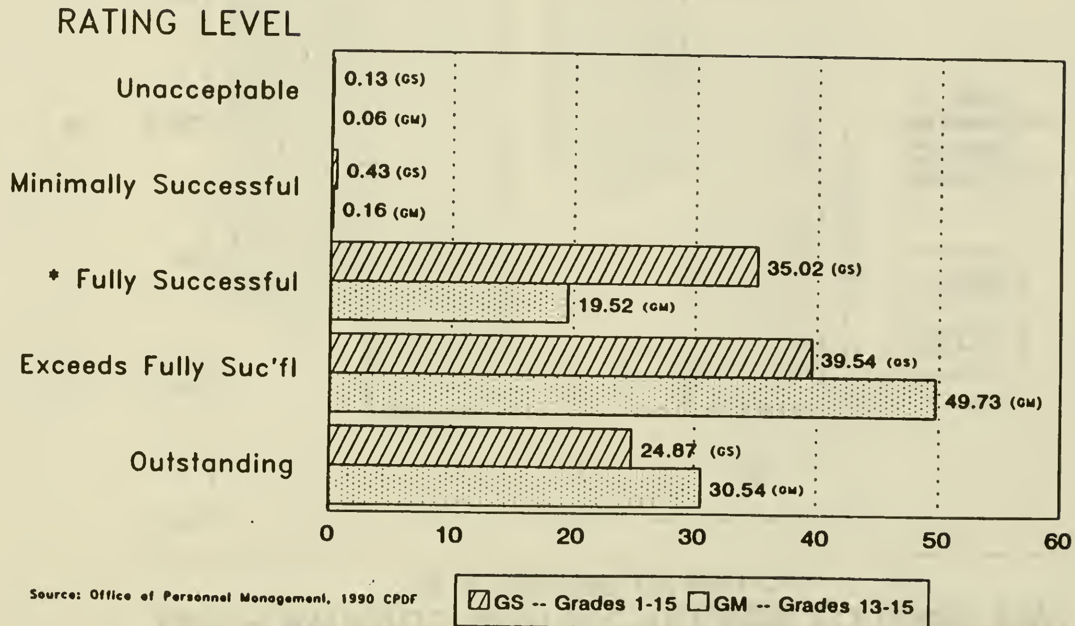


Source: Office of Personnel Management, 1990 CPDF and PerMIS

Figure 2

PERFORMANCE RATINGS BY SYSTEM

PERCENT OF EMPLOYEES AND THEIR RATINGS



Source: Office of Personnel Management, 1990 CPDF

*SATISFACTORY LEVEL OF PERFORMANCE

Table 1

Distribution of Full-Time Permanent Employees
in the General Schedule* -- September 1990

**by Race/National Origin and
by Race/National Origin and Rating Level****

		Native American	Asian	Black	Hispanic	Other
POPULATION***		19,901 1.6%	32,571 2.6%	224,479 17.6%	65,284 5.1%	930,984 73.1%
RATING LEVEL	1	27 2.0%	26 1.9%	406 29.4%	56 4.1%	866 62.6%
	2	126 2.7%	114 2.4%	1,443 30.5%	223 4.7%	2,822 59.7%
	3	6,901 1.8%	10,300 2.7%	79,681 20.7%	21,732 5.7%	265,623 69.1%
	4	7,312 1.6%	10,966 2.4%	72,930 15.8%	22,758 4.9%	346,863 75.3%
	5	3,239 1.1%	6,678 2.3%	42,343 14.6%	13,140 4.5%	224,517 77.5%

**by Gender and
by Gender and Rating Level****

		Female	Male
POPULATION***		653,561 51.3%	620,482 48.7%
RATING LEVEL	1	639 46.3%	742 53.7%
	2	2,262 47.8%	2,466 52.2%
	3	184,593 48.0%	199,644 52.0%
	4	223,874 48.6%	236,955 51.4%
	5	169,346 58.4%	120,571 41.6%

* Percentages indicate percent of row totals.
** Rating levels range from lowest (1) to highest (5).
*** Population totals may exceed the sum of individual ratings due to missing and invalid data.

Source: Office of Personnel Management, 1990 CPDF

PMRS PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM REVIEW COMMITTEE

ADVANCING MANAGERIAL EXCELLENCE

A Report on Improving the Performance Management and Recognition System

November 5, 1991

PMRS PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM REVIEW COMMITTEE

November 5, 1991

Honorable Constance Berry Newman
Director
U.S. Office of Personnel Management
Washington, DC 20415

Dear Mrs. Newman:

We are very pleased to present the Performance Management and Recognition System (PMRS) Review Committee report, *Advancing Managerial Excellence: A Report on Improving the Performance Management and Recognition System.*

The Committee's mandate was to review the PMRS and advise the Office of Personnel Management on recommended policy for a fair and effective performance management system for Federal managers. Our report is, we believe, fully responsive to that mandate.

The Committee examined the PMRS from three distinct dimensions. We analyzed the system in terms of the effectiveness of the performance appraisal process. We considered changes to base pay, being mindful of funding implications as well as appropriate methods for employees to progress through the pay range. Finally, we reviewed awards and recognition, with sensitivity to the development of a system that strengthens the link between pay and performance.

The Committee reviewed the relevant literature on performance management and received briefings from experts in the fields of performance appraisal and pay-for-performance. The Committee also benefitted from the views of the three management associations represented on the Committee. In addition, we reviewed various demonstration projects and other model pay-for-performance systems. As required by its charter, the Committee coordinated its efforts with those of the Pay-for-Performance Labor-Management Committee.

We believe that the report provides sound recommendations for revitalizing the PMRS and strengthening the link between pay and performance, while addressing some of the underlying problems with the current system. We know that you share our commitment to these goals and urge you to lend your support by giving full consideration to implementing these recommendations.

Herbert R. Doggette, Jr.
PMRS Review Committee Chairman

Daniel M. Smith
Social Security Management Associations, Inc.

Helene A. Benson
Professional Managers Association

Elizabeth W. Stroud
Department of Commerce

Jeanne B. Fites
Department of Defense

Michael B. Styles
Federal Managers Association

Alfred A. Holston
Department of Labor

Socorro Velazquez
Internal Revenue Service

David S. Orr
Federal Election Commission

Elaine B. Wright
Environmental Protection Agency

TABLE OF CONTENTS

EXECUTIVE SUMMARY

In April 1991, the Director of the Office of Personnel Management (OPM) appointed a ten-member advisory committee to review and recommend improvements to the Performance Management and Recognition System (PMRS). The Committee's responsibility to recommend policy for a fair and effective performance management system for Federal managers was established by Congress as part of the PMRS Amendments Act of 1991. This report presents the Committee's recommendations on policy and system changes to better encourage, recognize and reward quality performance and to improve performance management.

While the Committee supported the concept of pay-for-performance for Federal managers, we agreed that the current PMRS is neither fair nor effective. The Committee recognized, however, that the PMRS improved upon its predecessor, the Merit Pay System, which was first established under the Civil Service Reform Act of 1978.

The Committee first developed and utilized evaluation criteria to assist in formulating its recommendations. These criteria were based on current problems with the PMRS which include: inadequate communication of expectations and feedback on performance; inaccuracy in performance ratings; perceived rating quotas; negative perceptions of the Fully Successful rating; and lack of financially-meaningful performance awards. The Committee was sensitive to resultant problems with morale and skepticism among covered employees.

The Committee spent six months considering expert testimony, researching authoritative literature and debating pay-for-performance issues for Federal managers. We kept in mind the need for compatibility with the principles of Total Quality Management.

The Committee determined overall that there is a compelling need to simplify the PMRS, to remove non-performance factors from the appraisal process, to improve communication and PMRS training, and to permit agencies the necessary flexibility to expand and adapt the performance awards process to their particular structure, culture and objectives.

The Committee recommends continuation of an incremental approach to making the PMRS more credible, more effective and more responsive, rather than the creation of an entirely new system.

Governmentwide recommendations address the need for simplification and for movement to a credible, truly performance-based appraisal system. The Committee recommends establishment of a two-level summary rating system to replace the current five-level system and an administratively separate, independent awards process based upon supervisory nomination. All pay increases (Employment Cost Index (ECI), locality, and merit) would be contingent upon successful performance. Other recommendations include mandatory training programs for PMRS rating and reviewing officials and training in communications skills both for managers conducting the appraisals and for those being appraised.

Recommendations of flexibility for agencies encompass opportunities to expand the PMRS below grade 13 to cover lower-graded managers and supervisors where appropriate; to reprogram funds to provide additional PMRS funding for more meaningful bonuses; and to experiment with new sources of performance appraisal information, including measures of organizational performance. Agencies could strengthen the credibility of the awards process through the use of a peer review mechanism. The Committee also recommended agency authority to budget additional salary monies for demonstration projects to test alternative merit pay systems, in consultation with employees, professional and management associations, and OPM.

Finally, the Committee considered the need to attract and retain employees for supervisory positions under the PMRS. As a result, recommendations include increased annual leave carryover for PMRS employees and agency authority to establish a supervisory pay differential to recognize the additional responsibilities and obligations of supervision and management.

The Committee recognized the complexity and inter-relatedness of the problems with the PMRS. We unanimously agreed that there is no simple solution to the dilemma of how best to motivate Federal managers and reward high performance. The Committee's recommendations balance decentralization of the program against Governmentwide policies that will restore fairness and credibility to pay-for-performance for Federal managers. We believe the modifications we recommend will more effectively motivate PMRS employees to high levels of performance.

CHAPTER I: EVOLUTION OF PAY-FOR-PERFORMANCE IN THE FEDERAL GOVERNMENT

This report reflects the examination, deliberations, and recommendations made by the Performance Management and Recognition System (PMRS) Review Committee, which was charged with advising the Office of Personnel Management (OPM) on changes that could be made to improve the pay-for-performance system for Federal supervisors and management officials in grades 13 to 15. A major influence on the Committee was the Federal experience to date with pay-for-performance. This chapter reviews that experience and the context it has created for the operation and improvement of the PMRS or any successor system.

History Before the Civil Service Reform Act (pre-1978)

Although the Merit Pay System, created by the *Civil Service Reform Act of 1978* (CSRA), is seen as the first mandated pay-for-performance system in the Federal Government, elements of pay-for-performance have been evolving for over 40 years. During those years, the Congress, through legislation, and OPM and its predecessor, the U.S. Civil Service Commission, through regulation, tried incrementally to strengthen the link between performance and pay.

The beginning of institutional requirements for pay-for-performance can be traced to the First Hoover Commission in 1949, which recommended that employees receive periodic within-grade increases only when supervisors certified that employees' performance and conduct warranted it. The *Classification Act of 1949* established the General Schedule, with its 18 (now 15) pay grades and 10 fixed "steps" up the pay range for each grade. An employee progressed through those steps based on predetermined waiting periods that extended as years in the grade increased. This was, and still is in its practical operation, a longevity-based system for adjusting base pay wherein any employee could expect to reach the highest pay rate in a grade range after 18 years. Initially, these periodic step-increases to base pay, called "within-grade increases" (WGI's), were triggered by time only and had no link to performance.

The Performance Rating Act of 1950 required agencies to establish performance appraisal systems that included three adjective summary rating levels: Outstanding, Satisfactory, and Unsatisfactory. The purpose was to identify the best and weakest employees and to improve supervisor-employee relations. At that time, an Outstanding rating had no monetary consequences in terms of base pay adjustment or lump-sum cash award.

Financial incentives to recognize performance were introduced by the *Incentive Awards Act of 1954*, which authorized recognition and cash payments for superior accomplishments, suggestions, inventions, or other personal efforts. The intent of the

Incentive Awards Act was reinforced by passage of the *Federal Salary Reform Act of 1962*. This Act established a performance-based salary adjustment feature, "an acceptable level of competence" determination required for granting WGI's. Poor performance resulted in denial of the WGI, but the burden of proof lay with the agency. The Act also emphasized recognition of exceptional performance through the "quality step increase" (QSI), an additional base-pay increase to reward "high quality performance."

Another feature of the General Schedule is that when its pay ranges are adjusted annually to take account of private sector pay shifts, an employee's pay is adjusted automatically, with no account taken of performance. In this respect, the Government differs considerably from the private sector. Studies conducted in support of the recent Governmentwide pay reform effort indicated that only 4 percent of the large private sector corporations surveyed grant across-the-board pay increases concurrent with pay structure adjustments.[1]

Through the 1970's, a series of studies and panels stressed that merit or performance should be the principal basis for advancement through a grade's pay range. Based on the recommendations of the experts, then, the case for merit pay was gaining in strength. It was further supported by the 1977 *Personnel Management Project Report* by the President's Reorganization Project, which concluded that with 99 percent of employees being rated Satisfactory, some who deserved higher ratings and some who deserved lower ratings were going unrecognized. It also concluded that there was insufficient linkage of performance ratings to pay, that the periodic WGI's had become virtually automatic, that QSI's and cash awards were seldom used, and that supervisory action to withhold WGI's often met resistance from affected employees and sometimes from management itself. The groundwork was thus laid for the merit pay provisions of the CSRA.

The Merit Pay System (1981-1984)

Although limited to General Schedule supervisors and management officials at the 13, 14, and 15 grade levels, CSRA's merit pay provisions represented a break from the long tradition of virtually automatic salary increases based on length of service. They also sought to motivate better performance through awards and to deter poor performance by making base pay adjustments contingent upon employees' performance ratings.[2]

The goals of the Merit Pay System were to increase individual and organizational productivity and accountability, reward and encourage good performers, increase efficiency and economy in times of tight budgets, and improve service to the public while also improving the image of Federal employees. This latter objective was to have been achieved by placing these Federal employees under pay adjustment mechanisms similar to those used for most white-collar employees in large private sector organizations.

Merit pay legislation provided broad flexibility to Executive agencies in the design of their pay-for-performance systems within some very limited Governmentwide parameters. For example, the pay range for a GM employee's grade was "open," with no predetermined rates set at step intervals. Another Governmentwide technical change was that employees covered by the Merit Pay System were to use the pay plan designation "GM," rather than the "GS" of other General Schedule employees. That label for employees in the Merit Pay System and its successor pay-for-performance schemes continues to be used today.

Under another Governmentwide feature of the Merit Pay System, GM employees were treated differently with respect to the annual general comparability adjustment to General Schedule pay ranges. GS employees continued to receive the full adjustment as an entitlement. For GM employees, who were now to put some of their base pay at risk, only one half of the general comparability increase was granted to all employees rated Fully Successful or better. The funds for the other half of the comparability adjustment were placed into the pool of money that composed the Merit Pay Fund out of which merit increases (performance-contingent base-pay adjustments) were to be paid. The rest of this pool came from funds the agency would otherwise have spent for WGI's and QSI's. The legislation did, however, give OPM authority to grant the full general comparability increase to employees rated Fully Successful or better when it was deemed appropriate. Because of salary freezes and small salary schedule adjustments, OPM granted the full increase each year during this period.

Beyond these few centralized features, agencies were basically free to determine such program features as the number of summary rating levels and the schemes for paying out the new "merit increases" (i.e., the percentage salary increases to be paid to employees given different summary performance ratings and given different positions in the pay range). These merit increases replaced the WGI's and QSI's for GM employees. Over time, many agencies developed merit pay models to try to "self-adjust" for strict or lenient rating tendencies and produce merit increases that approximated the General Schedule WGI's as closely as possible. This was done largely to allay GM employee concerns about equity with GS employees.

The merit pay legislation included provisions for lump-sum cash awards that were essentially parallel to the incentive awards provisions applicable to the entire General Schedule. Few systemwide criteria were established for granting merit pay cash awards and no funds had to be set aside for award pools. Not surprisingly, under the Merit Pay System, GM employees continued to receive relatively few awards.

A 1981 Comptroller General decision required that merit pay funding levels be substantially reduced, and many GM employees complained that they were receiving lower pay increases and thus less total pay than their GS counterparts. Worse yet, in terms of what a successful merit pay program would require, sharply reducing the funds to finance merit increases seriously undermined any perception that those performance-linked increases were "meaningful." In 1984, Congress attempted to correct this problem and reestablish equity across and within agencies by creating the

Performance Management and Recognition System (PMRS) to replace the Merit Pay System.[3]

The Performance Management and Recognition System (1984-Present)

When the Merit Pay System was replaced by the PMRS in 1984, the new system represented a return to a highly centralized, Governmentwide approach to pay administration for mid-level Federal managers. Many of the flexibilities of the Merit Pay System were removed to assure greater consistency across agencies and between GS and GM employees. The statute established that all GM employees, now sometimes referred to as "PMRS employees," were to be rated against performance elements and standards using five adjective summary rating levels. The full general comparability increase was guaranteed to all GM employees rated Fully Successful or better. One-half the comparability increase was guaranteed to GM employees rated one level below Fully Successful, and GM employees rated Unacceptable would receive no comparability adjustment. The legislation also specified merit increases, which amounted to annualized portions of the WGI's granted under the General Schedule, to be paid according to an employee's rating of record and position in the pay range. These two features worked together to reestablish equity with GS employees.

The new PMRS emphasized paying lump-sum cash awards as an important recognition and reward of exceptional performance. Agencies retained flexibility in designing performance award criteria, but, because performance awards had been used so little under the Merit Pay System and for General Schedule employees in general, the statute included some awards spending requirements. To ensure that the awards feature would indeed be used while still controlling costs, the system provides minimum and maximum amounts for overall award expenditures. The ceiling was set and remains at 1.5 percent of aggregate GM base pay. To help ensure that exceptional performance was recognized with a meaningful reward, a minimum 2 percent of base pay award for employees rated Outstanding was also a requirement.

Recent Extensions of the PMRS

The 1984 legislation that established the PMRS contained a sunset provision whereby the legislation would expire 5 years after enactment unless extended by Congress. While the PMRS was an improvement on the Merit Pay System, it has not been without problems.

In 1987, the General Accounting Office (GAO) reviewed the first year of the PMRS in five agencies and identified a number of problems including inflation of ratings, allegations of forced distributions of ratings, which are prohibited by law, and an employee perception that a Fully Successful rating reflected only mediocre performance.

After 3 years under the Merit Pay System (October 1981 - October 1984) and 5 years under the PMRS (October 1984 - September 1989), PMRS employees, primarily through professional/management associations, voiced their discontent with the pay-for-performance programs in the Federal Government. Other studies and reports produced by OPM, GAO, and the U.S. Merit Systems Protection Board (MSPB) largely echoed this widespread discontent from the PMRS population and documented its problems. Many of these problems are discussed later in this chapter.

One obvious problem, especially in terms of reestablishing parity with the General Schedule pay adjustment mechanisms, came to be called "the glitch." Under the statutory merit payout scheme, GM employees whose base pay fell in the middle third of their grade's pay range and who were rated Fully Successful received only one-third of a merit increase, which is not comparable to the one-full-WGI-every-2-years that Fully Successful GS employees in the middle third of the range receive.

When Congress reviewed the PMRS in September 1989 to determine whether to extend, replace, or abolish it, they were confronted with major discontent with the current system, but no consensus as to what should replace it. Inasmuch as Congress wanted to retain pay-for-performance in the Federal Government, a concept widely accepted by mid-level management in theory, but not as applied through either the Merit Pay System or the PMRS, it decided to extend the PMRS for a limited time (18 months--from October 1989 to March 30, 1991) with minor changes.[4] As part of its extension, Congress took some actions, including:

- removing "the glitch" by granting Fully Successful GM employees in the middle of the range one-half merit increase adjustments rather than one-third;
- adding the requirement that agencies provide a performance improvement plan (PIP) to each employee whose performance is below Fully Successful; and
- directing OPM to commission a study that would analyze contemporary scientific research on pay-for-performance and review its everyday practice and effects in the private sector.

At OPM's request, the National Research Council (NRC) of the National Academy of Sciences convened a panel to study performance appraisal and merit pay. Its report, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay* was published in early 1991.[5] The NRC Report presents, reviews, and considers a large body of literature and pay-for-performance practices and presents several findings and conclusions as well, but does not make any specific recommendations. The Committee on Performance Appraisal for Merit Pay which produced the report found that there was no "blueprint for linking pay to performance in the Federal sector or even any specific remedy for what ails PMRS."[6]

During the period the PMRS was in effect and being revised, extending pay-for-performance to other segments of the Federal workforce had remained the subject of much discussion. The Administration had proposed the *Federal Employees Pay Comparability Act of 1990* (FEPCA), and in its original form, FEPCA contained strong pay-for-performance components. However, given the history of the pay-for-performance program for mid-level managers, Congress was reluctant to pass legislation that would extend pay-for-performance to the entire Federal white-collar workforce. Instead, it passed a comprehensive revision to the basic pay system, but removed the pay-for-performance components and established a Pay-for-Performance Labor-Management Committee to study the issue of pay-for-performance for the entire Federal workforce.

As the second sunset deadline of March 30, 1991, approached, OPM and Congress remained undecided as to what should replace the PMRS. Their goal was to continue to meet a national policy objective of using pay-for-performance approaches while responding to employee and professional/management association concerns.

In the spring of 1991, Congress extended the PMRS until September 30, 1993, again with minor revisions.[7] These revisions included removing the mandatory 2 percent award for employees rated Outstanding and permitting the use of work objectives in addition to, or in lieu of, critical elements and standards for evaluating performance. The current provisions and requirements of the PMRS are described in brief in appendix A. The PMRS Amendments of 1991 also provided for the establishment of a PMRS Review Committee to review the system and make recommendations to the Director of OPM on policy for a fair and effective performance management system for Federal managers.

Lessons Learned from the PMRS Experience

Evaluations of the PMRS conducted by OPM, GAO, and MSPB have documented many of its problems. Some of them have been corrected by legislation and regulation after passage of the PMRS, although any salutary effects of the corrections may not be fully felt yet. Still other problems persist that cause repercussions throughout the performance management and pay systems for PMRS employees. Understandably, any proposed reforms for the PMRS would need to take these problems into account as well as the Merit Pay and PMRS experience to date.

Before cataloguing the problems and problematic experience with the PMRS, it may be useful to acknowledge some of the phenomena that one would expect to find in a pay-for-performance system that was functioning well. According to the literature, these would include, among other things:

- Ratings that are accepted and perceived as accurate;
- Perceptions that valid performance distinctions are linked to meaningful payouts; and

- Perceptions that the system is fair.

When one examines the record, the PMRS fails to meet these criteria. When those failures are examined in more detail, they occur at various points in the processes that are associated with operating any pay-for-performance system. A brief overview of the steps envisioned for the performance management and recognition process is shown below.

In its simplest terms, the process should include these phases:

- Performance plans and expectations are set and communicated between the employee and the rater; performance elements and standards, and now work objectives, are developed to define Fully Successful performance.
- The employee works throughout the performance appraisal period to meet those plans, standards, and objectives.
- The rater uses information about the employee's performance and compares that performance to the standards set earlier.
- Based on that comparison, the rater proposes a summary rating and refers it to a higher level approving official for concurrence.
- Based on that rating, financial consequences result, some automatically (general comparability and merit increases) and some after a nomination process (performance awards).

<u>Inaccurate Ratings</u>

The causes of ratings inaccuracy and error are complex. Ratings may be too high or too low. A rating may have been accurate as initially proposed by a rater but overturned by an approving official due to considerations that have nothing to do with actual performance. Some inaccuracy can be considered appraisal-specific, while some can be considered consequence-sensitive.

Appraisal-Specific Error. With respect to the appraisal process itself, i.e., the first three boxes shown above, sometimes the problems can be with the standards, sometimes with the validity of information that is available about the actual performance, and sometimes with making the comparison to the standard. In some cases, the performance standards may be unclear or not communicated effectively, so that when a rating is later made against them, the employee does not consider the rating accurate. This is especially likely to occur when the rater's ongoing feedback during the performance cycle is positive but non-specific and sets an expectation for a higher-than-warranted rating. Unclear standards also contribute to the distinctions between levels becoming blurred, so that an employee may not understand why a colleague receives a higher rating. Many PMRS employees, like their private sector counterparts, have trouble accepting a Fully Successful rating as accurate, considering themselves "above average" and equating Fully Successful with "mediocre."

Some research has pointed out that accuracy is not always the primary concern in the rating process.[8] A rater's main goal may be to use the appraisal system to motivate and reward employees, rather than to determine each employee's rating based on performance alone. Considerations unrelated to actual performance (e.g., self-interest, favoritism, attempts to compensate for inequities in salary) are frequently part of the evaluative process, thereby introducing bias and inaccuracy into the employee appraisal. These considerations contribute to the appraisal process because the rater considers the daily interpersonal dynamics with the employee, because the formal process results in a permanent written record, and because the formal rating can have considerable short-term and long-term impact on the employee. Indeed, these considerations of consequences bring us to perhaps the most powerful sources of rating inaccuracy that are operating with the PMRS today. In these instances, the comparison-to-standard appraisal process takes second place to other factors that drive the rating.

Consequence-Sensitive Error. The fact that the PMRS has linkages between performance ratings and financial consequences clearly built into its authorizing legislation was part of its reform of the inequitable Merit Pay System. Until the latest PMRS amendments, once ratings were made, about the only unknowns concerned what performance awards, if any, employees rated less than Outstanding might receive. The effects of particular performance ratings for employees at particular positions in the pay range are generally predictable and understandable. They are described in detail in appendix A. One cost of that predictability is that it may be unrealistic to expect raters to make their ratings as though they are doing so in a vacuum.

An emphasis on comparison-to-standard information in rating performance may weaken if a rater is attempting to use the system's mechanisms as a more general tool with which to manage recognition, financial rewards, or other consequences more equitably. The rater may ask "What's a fair outcome?" and derive a defensible rating that will achieve it.

Fairness is a function of many things, including what rewards GS counterparts are receiving, what employees in other groups and agencies are receiving, and what private sector employees are receiving. These equity concerns may be substantial contributors to the general ratings inflation that has occurred with the PMRS. During its first years, when the "glitch" was still operating, raters of GM employees paid in the middle third of their pay ranges may well have more than occasionally rationalized granting an Exceeds Fully Successful rating, which was required if parity with GS counterparts was to be maintained. The results of these well-intentioned equity-driven actions were heightened expectations as well as effectively lowered thresholds for that higher rating. Once the glitch was fixed, pressure to grant higher ratings continued as the white-collar pay gap continued to grow.

As Exhibit 1 indicates, ratings inflation has grown steadily since the inception of the first pay-for-performance scheme. Ratings inflation has continued to undermine the objective of providing meaningful distinctions among performance levels. It should be noted that these summary statistics represent different patterns across agencies over time. Average ratings for PMRS employees in individual agencies can be even higher than the Governmentwide 4.11 on a 5-point scale. The Department of Defense (DOD), in addressing the Committee this summer, reported that the average rating for PMRS employees in DOD had risen from 3.88 in 1985 to 4.19 in 1990.

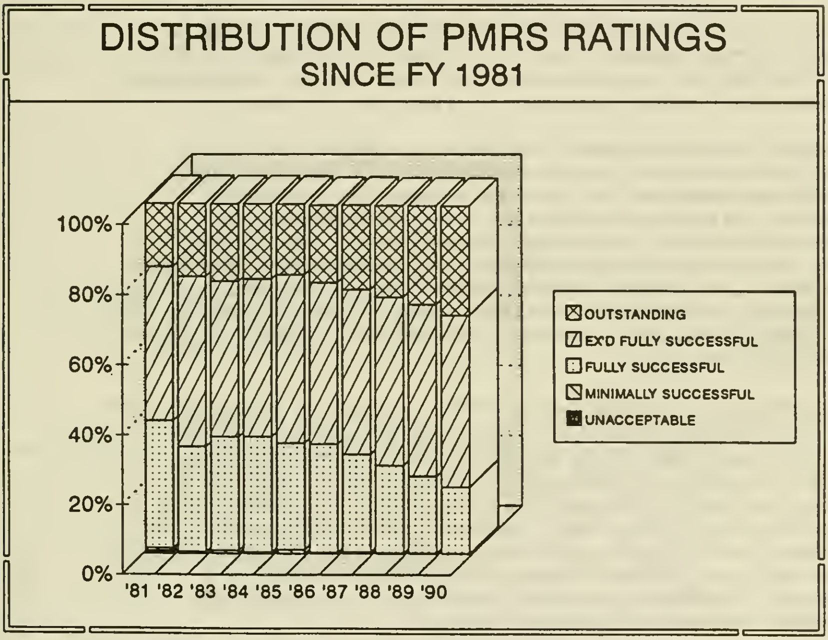


EXHIBIT 1

Some agencies have managed to control ratings inflation and not all agencies have shown this degree of inflation. However, those situations where ratings distributions have remained more evenly or "normally" distributed (i.e., more Fully Successful and fewer Outstanding ratings) may be very specific to a particular agency's culture and workforce or may be the result of constraints imposed within the agency itself.

The growth in the proportion of PMRS employees rated Outstanding is of particular interest. In FY 1990, over 30 percent of GM employees were rated Outstanding, compared to 25 percent for the GS workforce and 20 percent for Federal Wage System (blue-collar) employees. The President's Reorganization Project asserted in 1977 that with only 1 percent of Federal employees labeled Outstanding under the three-level rating system, some high performers were going unrecognized. It is generally assumed, however, that their estimate of a more accurate proportion would not have been as high as 25 or 30 percent.

At least some of the inflation under the PMRS may well be laid to what might be called "the pay gap imperative." Raters of GM employees had a means available to effect somewhat larger base pay adjustments and provide other direct compensation in the form of mandated performance awards. Not surprisingly, they have used it.

Because the financial consequences of the Outstanding rating can be considerable, some limitations have been introduced formally in the system itself. For example, until the recent amendment, the proportion of employees who could be rated Outstanding and still receive the required 2 percent performance award was effectively limited by the 1.5 percent cap on total performance awards spending. Other limitations have been set more informally by the agencies as they operate their local plans. GAO reported in 1987 that as a result of budgetary constraints, agencies have felt pressure to influence the distribution of ratings.[9] Although forbidden by law, some agencies allegedly use predetermined or "forced" distributions of ratings to control payout obligations.

The stories abound--of employees who are told "It's your turn" (to be rated higher or lower than actual performance would warrant); or of the approving officials who overturn proposed ratings to meet "quotas;" or of the newly promoted employee whose well-above-standard performance is brushed aside with the explanation that "No one gets above Fully Successful their first year" by a rating official who may choose not to "waste" a higher rating on an employee paid in the lowest third of the pay range, since the Fully Successful rating earns the same size merit increase as any higher rating would. The precise accuracy or frequency of these situations is unknowable. Nevertheless, they have the unfortunate effect of eroding PMRS employees' confidence in the validity of the ratings.

It is noteworthy that one agency has recommended that forced distribution of ratings be allowed and Outstanding ratings severely restricted under a new system since dollars are, in fact, driving ratings. The reasoning was that this would deflate employee ratings expectations and, as locality pay is implemented under FEPCA, the pay gap that helped fuel PMRS ratings inflation will close.

Performance Linked to Meaningful Payouts

Concern with rating inaccuracy goes beyond a mere interest in technical measurement issues. The purpose of the pay and performance linkage is to motivate and reward good performance. If the performance ratings that trigger the linkage are inaccurate, the result will be pay increases that are not based on performance. This undermines the reinforcing effect intended for the good performer and instead reinforces the non-performance factors that are perceived to be driving the inaccurate ratings. When the foundation for the link between pay and performance is suspect, the entire system can break down.

Moreover, the PMRS has been found wanting with respect to its rewards being meaningful. Making meaningful pay distinctions among PMRS employees has become problematic. Some argue that with the percentage pay adjustments from merit increases being so low (a full merit increase is approximately 3 percent of base pay), the paycheck-by-paycheck differences between the payoffs for different ratings are so small some employees consider them insignificant or even insulting. Of course, administrators of the system who look at total payouts counter that the differences become substantial over time.

The challenge of delivering meaningful rewards becomes more acute with the performance awards component of the PMRS. Because of continuing ratings inflation and the problem of inadequate funding, awards pool money can be quickly depleted. When the number of employees receiving Outstanding ratings increases and each is guaranteed an award amounting to 2 percent of base pay, as was required until this year, less and less money will be left over to grant awards to employees with lower ratings. As is the case with many agencies, DOD, with 35 percent of its PMRS employees rated Outstanding in 1990, has found that significantly less awards money has been available to reward performance at other levels. Even with the 2 percent award lifted as an absolute requirement, it is expected that agencies will still want to give substantial awards to their outstanding employees.

OPM has reported that, consistent with the continued rise in average performance ratings, the percentage of PMRS employees granted performance awards increased from 60 percent in 1987 to 70 percent in 1990.[10] The trend toward greater numbers of awards based on higher ratings has also influenced the size of individual awards. OPM data show the average rating for PMRS employees in 1987 was 3.94 and the average award amount, as a percentage of base pay, was 2.2 percent; in 1990, the average rating was 4.11 and the average performance award was 1.9 percent of base pay. This downward trend in award amounts corresponds to MSPB's finding in 1987 where agencies reported that high performance ratings for large percentages of employees were a major factor contributing to the problems agencies were experiencing in providing meaningful recognition to top performers.[11]

Some observers have suggested that in this era of a growing pay gap some agencies may be deliberately increasing the number of PMRS employees receiving cash awards as a pay supplement gesture, even if the spending cap results in less substantial individual awards. A similar increase has occurred with GS employees.

Some PMRS employees are urging, directly and through their professional/ management associations, that the links between ratings and their financial consequences should be seriously reexamined. Some argue that employees would rather have accurate ratings and forego the money, that the organization's nonmonetary recognition of superior work is at least as highly prized as any financial reward that may cause contention and deny a fellow employee a fair rating because of quotas and other mechanical constraints in the system.

Perceptions of the System

As noted earlier, a key to judging whether a pay-for-performance system is successful lies less in how much it pays out or how its features are administered technically than in the perceptions of the people it affects. Since the days of the Merit Pay System considerable effort has been made to assess the perceptions of the Federal Government's pay-for-performance system participants and observers. The NRC Report provides a useful summary of many of these efforts.[12]

Recent studies from both GAO and MSPB have shown that acceptance of the PMRS is mixed.[13,14,15] Data suggest that many participants see the system as one that does not adequately or consistently recognize and reward performance. The 1987 GAO study on the PMRS reported that factors unrelated to individual performance resulted in employees with the same grade and rating receiving significantly different award amounts. These studies show that, although there is greater acceptance of the PMRS than the Merit Pay System, employee concerns about equity remain.

MSPB reported that only 45 percent of sampled PMRS employees thought it likely that better performance would lead to more pay. The NRC Report notes that this compares favorably with a 1989 survey of private sector employees where only 28 percent of those surveyed saw a link between their pay and their job performance. Nevertheless, it is notable that only 42 percent of those surveyed by MSPB in 1989 indicated that if given the choice, they would choose to be under a pay-for-performance system.

These studies report considerable dissatisfaction with the rewards that the PMRS offers. Respondents feel that not enough money is available to reward the best performers. The likelihood that good performance will be recognized with some performance award has increased. However, even though most PMRS employees received performance awards, their size is considered inadequate. The NRC Report notes that these results are part of a much more general dissatisfaction with pay expressed by 60 percent of the 1989 MSPB survey respondents.

In addition to the more formal studies conducted by GAO, MSPB, and OPM, the professional/management associations that include PMRS employees have conducted informal surveys of their members. Their results show little support for maintaining the PMRS. As the NRC Report notes in summary:

"More than 75 percent of the managers indicated that they believed that their ratings were influenced by officials above their supervisors...and that insufficient funds have resulted in meaningless performance awards. Given that the current system is viewed as so unfair and ineffective, there is concern over whether any new pay-for-performance system could function effectively."[16]

What remains notable through all these studies, however, is the continued support for the concept of pay-for-performance. The 1989 MSPB survey notes that 72 percent of respondents endorse the proposition.

The degree of dissatisfaction expressed about the PMRS is ironic from one perspective. The survey results and other anecdotal information suggest that many PMRS employees feel they have been disadvantaged by being placed under the system. The effects of the early, inequitable days of the Merit Pay System and the era of the PMRS's "glitch" will remain powerful moderators of employee perception for a long time to come. The fact is that the PMRS is a richer system than the General Schedule in terms of the relative percent of payroll paid out as base pay adjustments and performance awards. As Exhibit 2 indicates, in the two areas where GM and GS employees are under different pay administration systems, within-grade adjustments and awards, the PMRS system pays considerably more as a percent of total payroll. The benefit from the general comparability adjustment is virtually identical to employees in both systems since so few PMRS employees are rated less than Fully Successful and thereby lose some or all of their comparability adjustment.

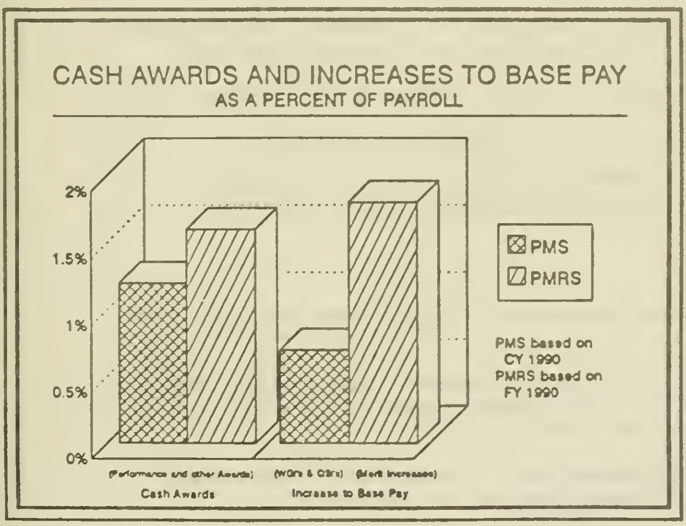


EXHIBIT 2

Summary

This review of the problems, mechanical and perceptual, that continue to trouble the PMRS suggests that the system has failed to produce the phenomena expected of a successful pay-for-performance system. Given these failures to achieve a system that is perceived to produce valid performance measures or link meaningful rewards to successful performance, perhaps it is no surprise that there is virtually no empirical evidence that the PMRS has increased individual or organizational productivity. The NRC Report noted that this dearth of empirical evidence is true for the private sector as well, at least with respect to classic merit pay schemes that adjust base pay based on measures of individual performance.[17]

The problems cited here, given their nature and inter-relationships, suggest that any reform of the PMRS should consider its fundamental processes and principles very carefully. The goal of reform should be to restore the credibility and acceptability of a system for managing and recognizing the performance of the Federal Government's mid-level management.

NOTES

1. The Wyatt Company, *Study of Federal Employee Locality Pay,* Appendix: 1989 Survey of Locality Pay Practices In Large U.S. Corporations, July 1989.

2. James L. Perry, "Making Policy by Trial and Error: Merit Pay in the Federal Service," *Policy Studies Journal*, Winter 1988-89, p. 389.

3. *Civil Service Retirement Spouse Equity Act of 1984*, Public Law 98-615.

4. *PMRS Reauthorization Act of 1989*, Public Law 101-103.

5. National Research Council, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*, National Academy Press, Washington, DC, 1991.

6. Ibid., p. 164.

7. *Performance Management and Recognition System Amendments of 1991*, Public Law 102-22.

8. Dennis A. Gioia, Clinton O. Longnecker, Henry P. Sims, Jr., "Behind the Mask: The Politics of Employee Appraisal," *Academy of Management Executive*, August 1987, pp. 183-193.

9. General Accounting Office, *Pay for Performance: Implementation of the Performance Management and Recognition System,* Report No. GAO/GGD-87-28, January 1987.

10. U.S. Office of Personnel Management, *Performance Management and Recognition System: Report to the President and the Congress*, Reports for 1987, 1988, and 1989 Performance Cycles.

11. U.S. Merit Systems Protection Board, *Performance Management and Recognition System: Linking Pay to Performance*, December 1987.

12. National Research Council, *Pay for Performance*, op. cit., pp. 29-30.

13. General Accounting Office, op. cit.

14. U.S. Merit Systems Protection Board, op. cit.

15. U.S. Merit Systems Protection Board, *Working for America: A Federal Employee Survey*, June 1990.

16. National Research Council, op. cit., p. 30.

17. Ibid., p. 31.

CHAPTER II: ESTABLISHMENT OF THE PMRS REVIEW COMMITTEE

The PMRS Amendments Act of 1991 provided for the establishment of a PMRS Review Committee to review the system and make recommendations to the Director of OPM on policy for a fair and effective performance management system for Federal managers.

Committee Charter and Administration

On April 14, 1991, the Director of OPM chartered the Performance Management and Recognition System Review Committee. Consistent with requirements of the *Federal Advisory Committee Act of 1972* (FACA), the charter sets out the purpose, scope, and responsibilities of the Committee. The charter is reproduced in appendix B.

All administrative and procedural matters of the Committee were conducted in accordance with FACA rules. For example, all Committee meetings were announced in the *Federal Register* and were open to the public. In addition, a full record of Committee activity and deliberations was maintained and made available to the public. In all, 12 meetings were held between April and November 1991 and are listed in appendix C. Committee work was supported by OPM staff who provided technical and administrative assistance.

Committee Members and Appointment

Under its authorizing legislation, the Committee was to consist of such members as OPM considered appropriate, including representatives of Federal agencies with PMRS employees and organizations that include PMRS employees among their members. The Director of OPM appointed a chairman and nine members to the Committee.

The Committee's chairman was the recently retired Deputy Commissioner of the Social Security Administration, Herbert R. Doggette, Jr. The Committee included agency members representing the Departments of Commerce, Defense, Labor, and the Treasury, the Environmental Protection Agency, and the Small and Independent Agency Personnel Directors Group. Three professional/management associations were also represented: the Federal Managers Association (FMA), the Professional Managers Association (PMA), and the Social Security Management Associations, Inc. (SSMA). Appendix D contains the full roster of Committee members and their biographical sketches, as well as the names of alternate Committee members and support staff.

Goals of the Committee

As stated in its charter, the Committee's role was advisory. Its primary responsibility was to review the PMRS and advise the Director of OPM on policy and system changes that would improve performance management and recognition for Federal managers, reward and encourage quality performance, increase individual and organizational productivity and accomplishments, and identify ways to strengthen the link between pay and performance.

CHAPTER III: COMMITTEE PROCESSES, METHODS, AND STRUCTURE

Overall Plan

After carefully considering the assigned task and the possible ways of accomplishing it, the Committee decided to follow a three-phase process.

During the first phase, the Committee focused on identifying and defining the issues by gathering and examining ideas and information from a wide variety of sources. The second phase was devoted to the development and presentation of issues and ideas by Committee members. During the third phase, the Committee formulated proposals that contributed to the development of the final recommendations.

Early in the process, the Committee developed evaluation criteria to help focus thinking on the major issues. They are listed in appendix E. Committee members continued to develop the criteria through several meetings and used them as a basis against which individual members' proposals were compared.

Committee work was facilitated during the second phase through the formation of three subcommittees grouped into the three major areas of Committee concentration: performance appraisal, changes to base pay, and awards.

Each member of the Committee participated in all phases of the Committee process and the final report represents the work of the entire Committee.

It should also be noted that the work of the Pay-For-Performance Labor-Management (PFPLM) Committee was carefully considered. Under the provisions of its authorizing legislation, the PMRS Review Committee was required to coordinate its efforts with the PFPLM Committee. Both committees considered the same general body of knowledge, but the PMRS Review Committee focused more on managerial performance. Ongoing coordination of activity included exchanging minutes, having two joint sessions, attendance by the Chairman of the PMRS Review Committee at PFPLM Committee meetings, and by numerous personal discussions among and between committee members and staff.

Data/Information Gathering

During this phase, the Committee reviewed voluminous amounts of information that had already been developed on pay-for-performance, listened to numerous presentations by subject experts who presented a wide spectrum of ideas on performance evaluations and pay-for-performance, and invited, by *Federal Register* notice, all interested parties to give input. The list of subject expert presenters is provided in appendix F. PMRS Equal Employment Opportunity (EEO) data that the

Committee reviewed is in appendix G. The Committee also looked at the various current pay-for-performance demonstration projects and vigorously sought new and/or different viewpoints on areas under consideration. In addition, the three management associations represented on the Committee presented the views of their respective constituencies. In summary, the Committee sought to obtain and review all the relevant available information and to explore possible new approaches. Appendix H provides a full list of references and supporting documents the Committee used.

Development and Presentation of Ideas by Subcommittees

Each member of the Committee was assigned to one of the three subcommittees (Performance Appraisal, Changes to Base Pay, and Awards). During the data/information gathering phase, the subcommittees were asked to focus on their assigned areas and insure the presentations fully explored, among other things, the available information, current experiences, lessons learned from demonstration projects, and possible new approaches. They were also requested to consider the implications for funding, organizational structure, decentralization, and employee involvement. As a separate issue, they were asked to consider whether there was a need for separate systems for supervisors/managers and General Schedule employees.

After collecting and examining this information, they were asked to analyze it against the literature. The evaluation criteria continued to be developed during the course of several meetings and were later used as a guide against which Committee proposals were compared. The subcommittees also developed ranges of feasible options and tentative recommendations which the full Committee considered. This entire process constituted the second phase, which culminated with presentations by the subcommittees.

Development of Final Recommendations

Immediately prior to this phase, the Committee was privileged to spend several hours with Dr. W. Edwards Deming, one of the foremost management authorities in the world. During this informal session, Dr. Deming presented his views on awards, pay-for-performance, performance appraisal, and general performance management issues.

In preparation for the final phase, each member of the Committee, including the Chairman, taking into account all that was heard and presented, developed several comprehensive proposals. These proposals represented the range of options the Committee felt should be considered for the final recommendations. Appendix I is a matrix that highlights the features of Committee members' proposals.

After thorough discussion, the full Committee concurred in the recommendations contained in this report.

Staff Support to the Committee

The Committee is greatly indebted to the Office of Personnel Management for providing outstanding staff support to this effort. We are grateful to the Director of OPM for giving complete freedom to pursue the issues without constraint. We are also sincerely appreciative of the support we received from OPM staff. They provided logistical support, prepared literature abstracts, provided important background information, and assisted the Committee in ways too numerous to mention. Without their help, our task would have been much more difficult. Their names are listed in appendix D.

CHAPTER IV: FINDINGS, ANALYSES, AND RECOMMENDATIONS

Introduction

After extensive research, exploration and discussion, the Committee reached a consensus on the overall concepts shown below. These concepts have governed the Committee's deliberations and serve as a basis for our recommendations.

The Committee:

- unanimously supports the concept of pay-for-performance. Our belief in the principles of merit, public accountability, and individual and group motivation lead us to support this concept, despite recent Federal experience with the Merit Pay System and the PMRS. We recognize that many of the recommendations in the following sections of this report do not include a direct link between performance appraisals and pay or awards, but we feel that this approach improves the accuracy of performance evaluation while allowing for awards to recognize exceptional performers independent of the appraisal process.

- believes that the changes we are recommending can be implemented in a fashion compatible with Total Quality Management (TQM).

- fully supports the recent changes that have been made to the PMRS which allow the use of work objectives and removes the mandatory minimum 2 percent performance award for employees rated Outstanding. We believe these changes will have a positive effect on the PMRS. However, we do not believe that their full impact can be assessed until agencies have gained some experience in their application.

- believes that the best approach to making the PMRS more credible, more effective, and more responsive is through making incremental changes to the current system rather than trying to create an entirely new system.

- finds that the lack of credibility of the performance rating system is so pervasive and intense that this system, as currently administered, is ineffective as a vehicle for meaningfully recognizing and rewarding performance, or at least is perceived as such by many participants.

- believes there must be significant improvements in the areas of training and communications in order for the PMRS to be successful.

- favors flexibility to the extent that it allows agencies to tailor the PMRS to better fit their size/structures, cultures and environments, within broad, Government-wide principles. The Committee encourages agencies to redelegate to organizations under the agency level (e.g., agencies under a department, bureaus, etc.) the authority to tailor the PMRS to better fit the needs and unique conditions of the individual organization.

- readily acknowledges that we were not able to find the "best solution" or the "right answer" to all of the expressed concerns about the PMRS and pay-for-performance.

RECOMMENDATION:

1. **Encourage agency flexibility including controlled experimentation that facilitates the collection of valid, empirical information; and formal, long-term evaluation of program effectiveness.**

A. Systemwide Recommendations

Coverage of the PMRS

The Committee discussed a variety of coverage possibilities. They included retaining current PMRS coverage; covering all GS employees; covering supervisors only at all grades; covering all GS/GM 13-15 and current PMRS employees; and providing an agency option to broaden coverage to lower-graded supervisors and management officials.

Covering all GS/GM employees (regardless of classification or grade) in one performance management system had some appeal in terms of simplifying training and communications, facilitating understanding and movement, recognizing the contributions of all employees, achieving compatibility with TQM and equity with other pay plans, and facilitating implementation. However, the Committee believes that a separate performance management and recognition system for supervisors and management officials is a sound approach to promoting the motivation, performance, quality, and integrity of this key group of employees. Further, the Committee, in recognition of the charter of the Pay-for-Performance Labor-Management Committee, decided to leave recommendations for bargaining unit employees to our colleagues on that committee.

The Committee's major concern was that there are large numbers of supervisors below the GM-13 level with significant responsibilities for whom PMRS coverage would be appropriate. We could ascertain no particular reason for the original 1978 determination to define the PMRS as including only supervisors and management officials within the 13-15 grade range, nor were we able to articulate any sound rationale for continuing to restrict coverage to that grade range. Coverage decisions should be based on the nature of the position, not on an artificial distinction based solely on grade. The Committee believes that expansion of coverage in certain instances would be consistent with its basic premise that a separate system is sound and helps develop an esprit de corps among supervisors.

The Committee concluded that PMRS coverage should continue to be based on existing statutory definitions. However, agencies should be given the flexibility to extend PMRS coverage to supervisors and management officials below the grade 13 level, consistent with the statutory definitions of "management official" and "supervisor" contained in 5 U.S.C. 7103 (a)(10) and (a)(11). Decisions to extend coverage should be made in consultation with affected employees; this includes professional/management associations where appropriate.

RECOMMENDATION:

2. **Permit agencies, subject to consultation with affected employees and OPM approval, to extend PMRS coverage below the grade 13 level to other managers and supervisors, consistent with the statutory definitions of "management official" and "supervisor."**

Funding for the PMRS

Although there was general agreement that the PMRS should be adequately funded, this issue generated some of the Committee's most intense discussion. In order to provide some definition for this discussion, three funding options were identified, as follows:

Option 1: Fund the PMRS at the same level as under the current system, with no additional funds either from existing accounts or through additional appropriations.

Option 2: Provide additional funding as needed through internal agency reprogramming (this would not preclude an individual agency from requesting additional appropriated funds specifically for the PMRS).

Option 3: Provide a Governmentwide increase in agency appropriations specifically earmarked for PMRS funding.

The Committee concluded that Option 1 would not provide sufficient flexibility and resources to enable agencies to develop and maintain an effective PMRS. Consequently, primary attention was given to the relative merits of Options 2 and 3. Some members of the Committee believe that Option 2 is the preferred approach for funding the PMRS because:

- Consistent with the Committee's recommendation to eliminate the current 1.5 percent ceiling on awards (see Recommendation #20), internal reprogramming of agency funds may be necessary;

- Significant funds are already expended on the PMRS. There have been no empirically-based demonstrations that the PMRS has resulted in gains in such areas as productivity increases or improvements in morale. Therefore, there is no basis to conclude that a Governmentwide increase in agency appropriations specifically earmarked for PMRS funding would achieve those results;

- The economic and political realities are such that even if a strong argument could be made for additional appropriations, they would not be forthcoming; and

- Since some of the Committee's recommendations would result in savings compared with the current system, agencies could very well provide sufficient funding so long as they had flexibility to reprogram among their various accounts.

Other Committee members favor Option 3 because:

- The awards component of the PMRS has traditionally been underfunded, resulting in an incentive system incapable of sufficiently rewarding exceptional achievement; in view of the recommendation to eliminate the 1.5 percent ceiling on awards, additional appropriations may be needed to provide meaningful awards;

- Recommending Option 3 may be worth the risk, just as the pursuit of the Senior Executive Service (SES) salary increase turned out to be worth the risk. Put another way, absent a recommendation from this Committee, the issue of additional funding is not likely to receive serious consideration;

- Additional funding would help establish a more appropriate financial relationship between the PMRS and SES systems; and

- As an alternative, additional funding for the first year of a new PMRS would facilitate the implementation of recommendations regarding supervisory differentials, training, and general administrative costs associated with implementing a new system.

While not unanimous, the Committee generally agreed that Option 2 would be most acceptable and would be compatible with more of our other recommendations, notwithstanding the potential for some agencies to secure higher PMRS funding levels than others. A view remained that additional Governmentwide funding would be needed.

RECOMMENDATION:

3. **Agencies should be specifically authorized to reprogram funds internally to provide additional funding for the PMRS, where considered necessary by the agency and where such authorization is needed. This would not preclude agencies from requesting additional appropriations specifically for PMRS funding.**

B. Appraisal

Requirement for Individual Appraisals

Committee members firmly believe that employees of the Federal Government must be held accountable for the products they deliver and the services they provide. Individual performance appraisals provide an accountability link between the tax dollars spent on an agency's human resources and individual employee productivity.

The Committee believes that a regular and documented individual appraisal (normally annual) is an integral component of assessing and strengthening performance. In addition, regular, continuing feedback and performance reviews to discuss and assess employee progress are effective mechanisms to strengthen the appraisal process.

There are recurring themes in these recommendations that support agency decentralization and flexibility and that stress the value of supervisory communication, feedback, and employee involvement. Nevertheless, the Committee believes it is highly desirable to require Governmentwide a documented progress review and at least an annual formal appraisal for each employee.

The Committee received a presentation by Dr. W. Edwards Deming who contended that it was not possible to rate individual performance. The Committee is sensitive to the difficulties and shortcomings of individual performance appraisal as identified by Dr. Deming. However, to discontinue such appraisals would not, the Committee believes, be compatible with the Government's environment and expectations concerning the need for assessing individual employee performance and accountability.

The Committee discussed the issue of whether a standard requirement to rate performance on an annual basis was appropriate for all types of positions. For example, some positions, such as researchers, typically work on investigations for years at a time before making any type of discoveries or scientific breakthroughs. Nonetheless, performance for these types of positions can usually be assessed by developing benchmarks--used to identify the anticipated level of research/findings to date--or the agency could make arrangements for an exception in those cases.

RECOMMENDATION:

4. **There should be a Governmentwide requirement for a regular--normally annual--documented individual appraisal and for at least one progress review during the course of the year. Continuous feedback should occur throughout the year.**

Developing and Communicating Performance Expectations

The Committee believes that one of the major failures of the current performance management system is the lack of communication between supervisor and employee. Supervisors must be trained not only in the mechanics of the system but in communication techniques so that they can work with the employee throughout the appraisal period.

Some members emphasized that, above all, performance expectations must be communicated. This includes the type and level of performance expected and the criteria on which it will be judged. Employees should take part in defining performance expectations and work objectives. Throughout the appraisal period supervisors should give performance feedback that will motivate the employee to improve performance without giving false expectations about the subsequent rating. Such feedback sessions should also be used as opportunities for the supervisor to obtain the employee's views and ideas concerning performance-related factors. Based on continuing and constructive feedback, the supervisor will have a sound basis for rating the employee and communicating that rating to the employee and the basis for it.

To help ensure the effectiveness of supervisory and employee communications, employees must be trained to better understand their rights and responsibilities. This will help them understand the context in which the supervisor is appraising and rewarding their performance. (See also Training in Section F of this chapter.)

RECOMMENDATIONS:

Agency PMRS programs should:

5. **Require that supervisors clearly communicate performance expectations to employees.**

6. **Enforce existing provisions that mandate PMRS employee involvement in the development of elements and standards and/or work objectives.**

7. **Provide employees the training needed to enable them to actively participate in the performance assessment process.**

8. **Train supervisors of PMRS employees in appropriate communication techniques as well as the mechanics of the performance appraisal system.**

Simplified Performance Measures

Committee members support agency flexibility to choose from a wide range of options in developing agency performance measures. Development of these measures, however, should comply with the oft-repeated message for a simplified appraisal process. Members believe that employees are dissatisfied with the appraisal process under the manner in which the PMRS currently operates, and that much of the dissatisfaction comes from the difficulty of measuring and documenting performance differences.

Many members recommended that standards or objectives should be developed that clearly focus on basic expectations and goals, rather than attempting to delineate multiple levels of performance. One recommendation was that individual accomplishments should be compared to simplified workplans and job objectives, mutually developed by supervisor and employee. The work objectives would represent the major components, purposes, or goals of the position.

Some members supported the use of work objectives similar to those suggested by OPM in their sample work objectives that accompanied the interim regulations on the 1991 PMRS amendments.

Others believed that performance standards should measure mutually-developed work objectives or criteria common to management positions. For example, the criteria could cover management effectiveness, including EEO, personnel administration, etc. Some supported a total quality standard measuring performance in a group, achievement of organizational goals, and examples of continuous improvement.

Most members believed that overall agency or organizational objectives should also be considered in the development of performance measures. One recommendation was that the work objectives should reflect organizational mission and goals so that the objectives of the organization as a whole would provide the unity by which all organizational units, and subsequently employees, would know how they and their work fit into the organization.

Another proposal recommended that broad criteria be set by management, in consultation with employees, as general parameters to differentiate among employee performance. Different criteria might be appropriate for different organizational units depending on the specific mission and size of the unit.

Different approaches were suggested in differentiating levels of performance. A recommendation was proposed that all work objectives be of equal value, without "critical" or "non-critical" differentiation. Employees would simply meet or fail to meet their work objectives. On the other hand, while the Committee was generally at a loss to understand the utility of "non-critical" elements, it did not recommend prohibiting agencies from using them. Regardless of which approach is used by an agency, if work objectives or critical elements are not met, a performance improvement plan would have to be developed for the employee.

RECOMMENDATIONS:

9. **The PMRS should continue the agency option to use statements of work objectives in addition to, or in place of, performance elements and standards. Agencies would still be required to identify those elements of the PMRS employee's job considered critical or essential for retention.**

10. **OPM should encourage agencies to use measures of organizational performance in recognition of supervisory and managerial responsibilities not only for their individual performance, but also for the organizations they direct.**

Sources of Input to the Performance Appraisal Process

There are a variety of sources of input to an employee's rating. In addition to the typical observations and assessments of the immediate supervisor, performance input can include evaluations by other employees, by a panel of supervisors, by higher-level supervisors and managers, as well as self-evaluations and ratings by subordinates. Methods of gathering information include: (a) direct observation of activities, performance, and work habits; (b) evaluations of work products; and (c) measurements of productivity, accuracy, and timeliness of the individual, group, and/or organization.

Customer input was also discussed. Some members espoused the "360-degree" concept of appraisal that involves input from customers, peers, subordinates, and performers, as well as supervisors. Customer evaluations would be especially appropriate for work groups operating under TQM because of the emphasis on meeting customer needs and being responsive to changes that need to be made in the product or service. However, these customer evaluations need to be carefully managed and monitored to avoid inappropriate solicitations of public accolades.

The Committee encourages agencies to broaden the scope of the information-gathering process, using existing authorities. Properly applied, the methods listed above can provide a more complete, and more accurate, basis for determining ratings and awards.

RECOMMENDATIONS:

11. **OPM should encourage agencies to experiment with new evaluation methods and to collect documentation and empirical evidence to expand and validate the sources of input to the appraisal process.**

12. **Agencies should evaluate the effectiveness of expanding the sources of appraisal input.**

Number of Summary Rating Levels

The Committee debated at length whether to recommend retention of the current five summary rating levels, to reduce the number of levels Governmentwide, or to allow variability at agency discretion.

We found little conclusive research on this topic, although the NRC Report on pay-for-performance indicates that reliability of rating could suffer if there were fewer than three or more than nine summary rating categories.[1] The NRC Report also suggests, however, that to motivate employees and provide incentives, multiple summary rating systems must make meaningful distinctions among employees directly related to their actual performance and must be perceived to do so by those employees. In addition, the rewards must be perceived as significant by employees if there is to be any realistic hope that desire for reward will motivate them.

Dissatisfaction with pay-for-performance for GM employees since the CSRA is well documented and shows that the manner in which the PMRS currently operates does not meet these requirements. Many Committee members believe that the PMRS is insufficiently funded to provide meaningful rewards. The Committee agreed that PMRS often forces fine, arbitrary or artificial distinctions to be made among employees who were already among the highest achievers when they competitively entered the system. We recognized also that in order to control costs, many agencies have written or unwritten guidelines for the distribution of ratings. Employees view these as forced distributions, expressly prohibited by statute.

Recent data show that what some consider to be ratings "inflation" or "creep" continues, as a growing majority of PMRS employees are rated at one or two levels above the middle, or Fully Successful, level. The Committee noted the NRC finding that when performance ratings are used in the context of varying merit increase allocations, managers tend to inflate ratings.[2] In addition, the NRC Report presents a theory that managers may attempt ratings "equity" over time.[3] This practice is familiar to those PMRS employees who believe they share Outstanding ratings on a rotating basis rather than receive ratings directly related to their current level of performance each year. Manipulation of ratings when a reduction-in-force (RIF) is imminent was also cited by some Committee members.

The Committee was sensitive also to the stigma felt by many employees at being rated Fully Successful, a problem exacerbated by the movement of most PMRS employees into higher rating levels. This situation is aggravated by the perception of many employees that their level of performance is higher than the level reflected by their performance ratings.

As a result of all the above factors, many covered employees have little confidence in the ratings, do not believe they are based on actual performance, and are, at this point, skeptical about prospects for improvement. The Committee concurred with the NRC finding that perceptions of unfairness affect job satisfaction and commitment,[4] undermining the potential success of any pay-for-performance system.

79-663 O - 94 - 6

The Committee agreed that ratings distortions also undermine appropriate non-pay uses of the rating system. We felt strongly that the rating process should provide employees with accurate performance evaluation and guidance and should identify training needs. At the same time, ratings distortions under the current system make it virtually impossible for agencies to identify truly outstanding performers through the use of summary ratings.

While there was no disagreement over the shortcomings of four or five rating level systems, there was a view expressed to provide agencies with the authority to use three levels. Advocates felt a three-level system would reduce the meaningless distinctions inherent in the five-level system while maintaining the ability to formally distinguish between the proficient and the truly exceptional. They felt this would: 1) be consistent with the Committee's desire to provide agency flexibility, 2) reflect the NRC suggestion that reliability drops with fewer than three levels, 3) maintain compatibility with the General Schedule system, and 4) preserve meaningful consideration of performance when computing service credit for RIF retention or ranking applicants for competitive staffing actions. Some Committee members expressed the fear that under a two-level system, RIF credits would be based solely on seniority and veteran preference, which would have a disparate impact on minorities and women.

Many members favored a two-level summary rating system. They felt that overcoming the deficiencies of the PMRS and its predecessor, the Merit Pay System, was a primary goal of the new system. The Committee agreed that the limitation to two summary rating levels would ensure that all PMRS employees demonstrating consistently good, solid, successful performance are treated fairly in the ratings process. Many believed that negative and demoralizing aspects which employees perceive as part of the current multi-level system would be eliminated under a two-level system, and that over time employee trust in the rating process would be restored.

The Committee agreed that under a two-level rating system, agencies would be able both to identify and assist non-proficient employees and to use the performance appraisal to engender honest feedback about performance. The Committee strongly stressed the importance of the use of the appraisal as a vehicle to promote honest, performance-related communication. Those favoring two rating levels over three felt strongly that as long as an Outstanding summary rating option exists, rating distortions would most likely continue, as would the reality or perception of non-performance factors driving the ratings.

The Committee cautioned, however, that the proposal for two summary rating levels should not be viewed in isolation from the recommendation of an administratively separate awards process. (See Section D of this chapter.) The simplified rating system would work in tandem with a nomination process through which those who deserve special recognition for outstanding service or exceptional achievement are identified and rewarded. It was suggested that in order to make distinctions of higher levels of achievement among successfully-performing employees, agencies could use broad criteria based on factors most meaningful to their own environments. Many Committee members felt that nomination of outstanding employees for a performance-based award not directly tied to a summary rating would allow a range of exceptional performance to be rewarded with a range of non-mandatory awards. This would permit agencies flexibility in further differentiating performance among successful employees, improving upon the current attempt to identify exceptional performers by summary rating.

RECOMMENDATION:

13. Simplify the PMRS performance appraisal system by using only two summary ratings.

Methods of Arriving at a Performance Rating

There are two basic approaches for determining a rating. One approach compares the individual's (or group's) performance against a set of performance criteria. The other approach compares the individual's (or group's) performance against another individual's or group's performance.

In the Federal Government the first approach is used and the criteria are expressed as elements with standards developed for each level of performance on each element. A variation of performance criteria expressed as elements is performance criteria expressed as statements of work objectives accompanied by specifications to determine the appropriate level of accomplishment of those objectives. In a two-level rating system, elements or work objectives could receive one of two ratings, "meets the objective" or "fails to meet the objective." TQM's statistical process control also fits into this category of comparing performance to a standard which, in this case, has been determined by the level of past performance. Out-of-system highs or lows are used to correct the system or assign individuals to training to improve performance. (Out-of-system highs or lows are situations where employee performance is outside the broad range of acceptable performance.)

The other approach of determining a rating consists of comparing the performance of a person (or group) against the performance of another person (or group). This can be done on the basis of qualitative information or on the basis of scores derived from numerical ratings of elements against standards. Then individuals are grouped or ranked on the basis of those scores. Comparative employee or group ranking is not favored by the Committee as an approach for annual summary ratings of performance, although it might be useful for selecting individuals for awards.

Regarding the procedures used to arrive at a summary rating, practices vary among agencies. Some use complex mathematical schemes; others permit broad discretion by the rater. The definition of a summary rating of Unacceptable, however, is statutory, with such a rating required when the "...performance of an employee ... fails to meet established performance standards in one or more critical elements...."[5]

The Committee discussed whether it is reasonable to define unacceptable performance (i.e., that level of performance leading to removal from one's position) on the basis of only one element. Some members felt that failure to perform on even one critical element was sufficient for an Unacceptable summary rating; others would leave it to the supervisor's discretion. Whether all elements should be critical or whether non-critical elements could be included was discussed, but not considered a serious problem.

The sense of the Committee was to maintain agency flexibility on arriving at summary ratings and retain the existing definition of Unacceptable performance. Agencies would determine the precise nomenclature of the various rating levels.

RECOMMENDATIONS:

14. Maintain in the PMRS the current system of elements and standards and/or work objectives. Use only two levels to rate performance of elements and/or work objectives consistent with a two-level rating system.

15. Allow agencies to determine the names of the rating levels.

C. Changes to Base Pay

This was a particularly critical issue because it forced the Committee to consider to what extent base pay should be put "at risk." A basic consideration was the need for an equitable and understandable system for base pay determinations which, at the same time, included an appropriate link to performance.

The Committee agreed that all base pay increases--Employment Cost Index (ECI) increases, locality adjustments, and merit increases--should require a current performance rating of proficient/successful. This will require an amendment to the current law which provides one-half the general pay increase to PMRS employees who are rated one level below Fully Successful and no general pay increase to PMRS employees rated at the Unacceptable level.

The primary dichotomy was whether the amount of merit pay increases should be basically guaranteed for proficient/successful performers, or if the amount of such increases should be discretionary, based on relatively higher levels of performance.

Some members believe automatic merit increases should be eliminated and based on appraisals of performance. Those favoring moving toward a system that makes merit pay increases dependent on performance determinations argued that:

- Increases granted under the current PMRS system are perceived to be longevity-based, rather than performance-based, and are contrary to pay-for-performance principles.

- In a pay-for-performance system, guarantees should be minimized and greater rewards should be accompanied by greater risks.

- Other Committee recommendations (e.g., supervisory differentials and awards), if adopted, will offer significant financial benefits and may require additional funding.

Members in favor of granting merit pay increases based on proficient/successful performance presented the following arguments:

- Current merit pay increases for employees rated Fully Successful are, in fact, based on performance and take experience into account as well.

- Governmentwide merit pay schemes highly contingent on differential performance evaluations fail to meet the tests cited in the NRC Report that, in order for pay-for-performance plans to improve performance without negative, unintended consequences, several conditions must exist:

  "These conditions include simple, structured jobs in which employees are autonomous, work settings in which employees trust management to set fair and accurate performance goals, and an economic environment in which employees feel that their jobs and basic wage levels are relatively secure."[6]

- It would further decrease the support of PMRS participants if we put merit increases at greater risk than they are now. We cannot "sell" a program to current PMRS employees if it offers less money than the current system or if basic benefits are removed. For example, if merit pay increments are lessened or abolished, the retirement annuity is adversely affected, no matter how large an award employees may receive.

- Since the validity of differentiating performance above the fully successful level is suspect, basing base pay increases on such differentiations is also suspect. In many instances, employees do not agree that those designated Outstanding necessarily perform at a higher level than those not receiving that rating.

- As the NRC Report points out, few jobs within Federal Government agencies permit the concrete measurement required to be considered valid and reliable measures of performance, thereby making validity and reliability concerns much more salient.[7] This is even more true of managerial jobs in the Federal Government. Hence, to put base pay at risk for those performing successfully would be perceived as most unfair.

- According to the 1990 Annual Report of The President's Pay Agent, the range of pay comparability is from 34 percent (for grade 13 positions) to 40 percent (for grade 15 positions) behind the private sector. Because of this

> and because of the impending RIF's in Government, it is important to preserve a guarantee of current merit increases as a minimum requisite of any new pay-for-performance system. The need for this may eventually be alleviated with the institution of revised performance ratings, the introduction of comparability through FEPCA, and other proposed system improvements.

These members, therefore, recommended that a standard, predictable system of granting merit increases be incorporated into the new pay-for-performance system. In recognition of the proposal to have only two performance rating levels, the current system would then be revised to pay a full merit increase to employees in the first tercile of the pay range and one-half of a merit increase to those in the second and third terciles.

The Committee discussed a wide variety of possible merit pay schemes ranging from the current system to pay banding. It considered five- versus ten-step ranges as well as a system where all fully successful performers would receive the same increases (based somewhat on the so-called "Deming" approach). We also discussed how the mechanics of various systems might work in a two- versus a three-level rating system, and whether additional increases to accelerate movement through the terciles could be provided as a form of award, like a QSI. Expansion of the GM-15 pay range by the equivalent of three steps was also discussed, as a way to deal with those who "top out" under the current system.

The Committee diligently searched for an approach that did not generally reduce the financial benefits available to PMRS employees, but which would put into practice pay-for-performance concepts that can work in the Federal Government. We were not able to reach a consensus view. Either position can be forcefully argued, and we therefore felt constrained to offer both as worthy of consideration.

The Committee believes the current climate is a major part of the problem underlying this debate. As previously discussed, it had been reported to us that a large percentage of covered employees do not believe the current PMRS is fair, that they feel the PMRS is seriously underfunded, and that they have little confidence in the current performance appraisal system. Therefore, they are not likely to support any merit pay scheme that makes the rate and amount of merit pay increases dependent on differential performance determinations.

The NRC Report indicates that options for developing potentially effective pay-for-performance systems are in part dependent on benefits already derived from the status quo. This is the "where you go depends on where you are" factor. Various members believed that this guidance was especially germane to deciding what can realistically be proposed as changes to the PMRS.

Despite the Committee's general agreement that, in theory, an acceptable pay-for-performance system in which merit increases were highly dependent on performance would be possible to develop, the Committee is unable to recommend such a system for Governmentwide use. The Committee did, however, believe that agencies should be granted the authority to develop merit pay demonstration projects that are more performance-contingent than might be provided for under a basic Governmentwide system. Several members believed that use of this authority should require additional salary funds being budgeted for such projects. The Committee also agreed that, regardless of the type of merit system, there should be a provision that permits accelerated movement through the pay range based on exceptional performance. (See Agency Awards in Section D of this chapter for a discussion on accelerated movement.)

RECOMMENDATIONS:

That the PMRS be modified as follows:

16. Grant ECI-based increases, locality increases, and merit pay increases only to employees who are performing at or above the proficient/successful level.

17. If Congress develops a Governmentwide merit pay system that provides for granting merit increases based on proficient/successful performance, the following scheme is suggested: grant a full merit increase to those in the first tercile and one-half an increase to those in the second and third terciles of the pay range.

18. Authorize agencies to budget additional salary money in order to develop alternative merit pay demonstration projects that are more performance-contingent, subject to consultation with employees and professional/ management associations and OPM approval.

D. Awards and Recognition

One of the essential ingredients of any performance management and recognition system is its awards component. For the purposes of this discussion, an award is defined as a cash payment in recognition of performance achievement beyond that normally expected. It may also be a special achievement award that gives recognition for a one-time act, or it may be a base pay increase. It could also be some type of nonmonetary recognition. The Committee believes that one of the tenets of the pay-for-performance concept is that achievement must be recognized and meaningfully rewarded, or positively reinforced, in order to sustain that level of performance and encourage even higher levels.

It is often represented that PMRS employees constitute a key component of the Federal workforce. It is our belief that this representation is accurate. It is the Committee's opinion, therefore, that there should also be certain basic forms of recognition connected with inclusion in the PMRS. This recognition should consist of benefits which would offer attractive incentives to join and stay in the PMRS.

Our assessment of the problem in this area was perhaps more uniform than our opinions about the appropriate solutions. However, there was little disagreement within the Committee about the following observations:

- Awards are often not monetarily or otherwise meaningful and, therefore, fail to adequately recognize performance accomplishments, nor do they sufficiently differentiate excellence from mediocrity.

- Although achievements are often the results of group or organizational effort, awards are generally made on an individual basis.

- Studies indicate that in order to be successful, pay-for-performance systems must be adequately funded.

- There are high levels of distrust and low levels of understanding among PMRS employees of the system in general and the awards component specifically.

- The system is too complex.

- Attempts to directly link awards to specific performance ratings ascribe more accuracy and precision to the rating process than most studies would support.

Our discussion addresses, in one form or another, all of these issues.

Awards Budget/Funding Levels

A crucial issue faced by the Committee was that of performance awards funding levels. Although the evidence is somewhat anecdotal, there was a strong view held by some members that the current PMRS awards component is underfunded. The numbers that are available indicate that the average Governmentwide PMRS performance award is approximately 1.35 percent of base pay. The average individual award is approximately $1,000. Some would argue that a $1,000 award has little motivational value to a manager earning $60,000+ annually, especially when that manager knows that non-PMRS employees receive awards of comparable, and even higher, amounts. It is also significant to note that the minimum SES performance award is 5 percent of base pay. In 1991, this equates to $4,350 for an ES-1, the lowest SES pay level. Accounts concerning the bonuses paid in many parts of the private sector only serve to exacerbate the problem. Additionally, the employee rated Outstanding who receives $1,200 is unlikely to see the equity of lower-rated staff receiving awards in the $800-$1,200 range.

Conversely, it could be argued that agencies already have the ability under current funding levels to make meaningful distinctions among different levels of performance. If agencies, for whatever reason, decide to give virtually everyone in the PMRS an award within a narrow range of $750-$1,250, for example, that is not a result of inadequate funding. It is, rather, the result of a management decision to grant awards on a wider basis. In some cases, this wider dispersion of awards serves as a pay supplement for PMRS employees.

Trying to balance these views, both of which have some validity, and being reluctant to excessively dictate budget decisions to agencies, the Committee recommends maintaining the current minimum funding level of 1.15 percent of the aggregate salary of PMRS employees. However, we recommend abolishing the statutory/regulatory ceiling of spending no more than 1.5 percent of that aggregate. Agencies would then be able to provide additional funding for PMRS awards consistent with their budgets. The data we reviewed indicated that overspending has not been a problem in PMRS administration and, in our view, is not likely to become one.

RECOMMENDATIONS:

19. Retain the current 1.15 percent of PMRS aggregate payroll minimum funding level for PMRS performance awards.

20. Eliminate the current 1.5 percent of PMRS aggregate payroll as a ceiling on the funding level for PMRS performance awards.

Peer Review

A common criticism of most performance appraisal and award systems is that the participants are excluded from the process. Decisions concerning their ratings, pay and awards are made behind closed doors, essentially free of scrutiny. The resulting perception is that this scenario permits, if not encourages, personal favoritism and other subjective factors to drive the process. The information available to the Committee suggested that many grade 13-15 Government supervisors and managers share this lack of faith in the PMRS. Many would argue that the credibility issue is accentuated in the PMRS because of the closer link in the PMRS, as contrasted with non-PMRS in many agencies, between one's rating and the financial rewards which may or may not follow. In other words, the stakes are higher.

Other than providing actual appraisal and award decision-making authority to PMRS participants themselves, which was not endorsed by the Committee, the Committee could not arrive at a specific solution to this problem. However, we believe that opening up the award process by using peer review could reduce the level of cynicism among many PMRS participants. By peer review, we mean a process whereby a representative number of PMRS employees would have access to and review, either personally or through professional/management associations, award recommendations after they are prepared by rating officials, but prior to approval by appropriate officials within the agency. This would most likely take the form of a committee or panel process. The review panel would be permitted to make recommendations regarding individual cases or on an organizational basis. Weak justification, inconsistency, and disparate treatment from an EEO perspective would be among the issues the panel could raise. While peer review in this context reserves the ultimate decision authority to upper management, opening up the process should provide some much-needed credibility.

However, we stop short of mandating peer review. While we think it desirable, it may not be suitable to all agencies, particularly considering the investment required in terms of staff time and the potential for additional paperwork. Additionally, some agencies may not have the necessary resources. Finally, some small agencies, due to their size, may find the concept unworkable.

In any case, we believe OPM should encourage agencies to utilize peer review as a way to develop and enhance employee credibility in the PMRS. We believe the investment will pay off.

RECOMMENDATIONS:

21. **Encourage agencies, through OPM regulation, to set up peer review panels for PMRS awards.**

22. **Require agencies which implement peer review to consult with and include recognized professional/management associations as appropriate.**

23. **Provide, through the Federal Personnel Manual (FPM), guidance, advice and models/examples of peer review procedures to assist agencies in setting up and evaluating such procedures.**

Agency Awards

This portion on Agency Awards is discussed in the same context as mentioned in the introduction to this section (see page 37). An award is defined as a cash payment in recognition of performance achievement beyond that normally expected. It may also be a special achievement award that gives recognition for a one-time act, or it may be a base pay increase. It could also be some type of nonmonetary recognition. The Committee's consideration of specific agency awards identified three basic principles. First, awards decisions should be formally delinked from specific ratings; second, awards should be of a sufficient dollar amount to be meaningful; and third, agencies should have the flexibility to develop awards programs suited to their own individual needs. In regard to delinking, we are not suggesting that PMRS performance awards no longer be based on performance, only that restrictive formulas for computation, which are tied to summary ratings, be eliminated. As a practical matter, however, the Committee views this as a moot issue if a two-level system is adopted in the Federal sector.

In addition to the above, there was considerable discussion in regard to proposing some means of accelerated movement through the pay range for PMRS employees. The proposal discussed would allow PMRS employees who are rated proficient/successful under a two-level system to be eligible for nomination for accelerated movement through the pay range. This would be in addition to the regular merit increase granted to all proficient/successful employees. This would be comparable to a QSI. Agency discretion would be granted for establishing objective criteria and means for review and approval. If the employee is nominated and approved, he or she would receive the equivalent of an additional full step-increase if his or her salary falls in the first tercile and the equivalent of an additional one-half step-increase if his or her salary falls in the second or third tercile. For example, a PMRS employee receiving a proficient/successful rating in the first tercile would receive a regular merit increase, which is the equivalent of a full step-increase. If nominated and approved for accelerated movement, he or she would then receive the equivalent of another full step-increase, equalling the equivalent of two full step-increases. In the second and third terciles, the accelerated movement would involve an additional one-half step-increase, resulting in the equivalent of one full step-increase after factoring in the merit increase.

In conclusion, our recommendations reflect some general principles and one specific recommendation regarding accelerated movement through the pay range.

RECOMMENDATIONS:

24. Delink specific award amounts/ranges from specific summary rating levels.

25. While we do not specify a minimum performance award as the SES system does, we recommend that OPM guidance be given to agencies that both individual and group performance awards should be meaningful and reflect significant differences in level of achievement.

26. Create a system which would allow for accelerated movement through the pay range. In addition to the regular merit increase given to all employees rated proficient/successful under a two-level rating system, the rate of movement by means of this award would be no more than the equivalent of one full step-increase in the first tercile and the equivalent of one-half step-increase in the second and third terciles. Use of accelerated movement would be optional with agencies and, when used, objective criteria should be established to determine how it is used.

27. Encourage agencies to use both monetary and nonmonetary awards to recognize performance.

Governmentwide Awards

In addition to agency awards, we believe that Governmentwide recognition should be given to those truly exceptional "superstar" PMRS employees. These awards would recognize those individuals who made contributions so extraordinary, or performed at such a high level, as to warrant significant recognition beyond that provided by agency PMRS awards. These awards would be similar to SES rank awards, though for lesser amounts. Like SES rank awards, each agency would be responsible for funding its Governmentwide awards. Agency funding for the Governmentwide awards would be from a separate source from that which funds agency PMRS awards (analogous to the separate source that funds agency SES rank awards from that which funds agency SES bonuses).

RECOMMENDATION:

28. Establish two Governmentwide awards for PMRS employees, to be administered by OPM. One would be in recognition of Distinguished Service, and the other in recognition of Meritorious Service. The recommended award amounts would be $10,000 and $5,000 respectively (paid by the employing agency). The numbers of recipients for each level of award would be determined by OPM.

Recognition of Group Performance

Traditionally, the basic thrust of most awards is to recognize personal achievement through a specific award made to an individual. Group awards, while not unheard of, are not the norm. The Committee did not wish to digress significantly from that approach, but felt that the recognition of group performance is a key aspect of any pay-for-performance system. PMRS employees who participate in working groups, lead special team projects, and perform similar group activities should share in the rewards which accompany a job well done. This is permissible under current regulations. However, the emergence of quality-based/customer satisfaction models, group-oriented TQM initiatives, and various demonstration projects, calls for even more emphasis on group recognition as an integral part of the PMRS. We feel that the vehicles for this increased emphasis are OPM regulations and FPM guidance.

Several proposals for potential performance management systems submitted by Committee members included a provision for recognition of group performance. One proposal recommended that agencies should retain flexibility in structuring their performance awards systems, allowing for consideration of group achievement. Another proposal emphasized group awards versus individual awards and recommended that all members in the group receive the same cash amount. Yet other proposals recommended the possibility of gainsharing as the means to recognize group performance.

RECOMMENDATION:

29. Encourage agencies to recognize group performance, either monetarily or nonmonetarily, utilizing existing OPM regulations and appropriate FPM guidance. Exemplary models of group incentives should be provided by OPM to assist agencies.

E. PMRS Status-Related Incentives

The recognition discussed in this section relates to certain benefits that the Committee proposes as a means of making the PMRS more attractive and to increase its status. PMRS employees perform key supervisory and managerial duties and responsibilities similar to those of their SES counterparts. The Committee believes that non-performance-contingent incentives should be made available for PMRS employees to recognize the status of members of this specialized segment of the Federal workforce. The Committee also believes that nonmonetary incentives, including training and development opportunities, should be made available for PMRS employees. These incentives are intended to help attract potential candidates into the PMRS and to retain current members.

Annual Leave Carryover

One method of providing a non-performance-contingent incentive to PMRS employees is to increase their annual leave ceiling. The Committee believes that an increased annual leave ceiling would provide a benefit that may help to attract and retain PMRS employees. The number of days of annual leave an employee may currently carry over from one calendar year to the next is 30. A reasonable increase to 45 days of annual leave carryover would serve to acknowledge that PMRS employees warrant a different type of recognition from their GS counterparts. At the same time, limiting the annual leave carryover to 45 days would recognize that unlimited annual leave carryover is a form of recognition reserved for members of the SES. From a cost standpoint, an annual leave ceiling of 45 days should be manageable and within an agency's funding parameters.

It is worth noting that there was some evidence that, although PMRS employees represent a fairly small percentage of the workforce, there is a significantly higher percentage of employees with use-or-lose leave at year's end who are in the PMRS.

RECOMMENDATION:

30. Revise 5 U.S.C. 6304 to provide an annual leave ceiling of 45 days for PMRS employees.

Supervisory Differential

Another method of recognizing the special responsibilities and obligations of supervision and management is the supervisory differential. Differentials are currently authorized as part of the compensation system available to agencies. They are generally limited to those cases where a difference in pay systems results in situations where a supervisor receives less in base pay than does the staff being supervised, or where special, unique conditions exist which render a job particularly hazardous or unpleasant, such as environmental or night shift differentials.

The Committee considered a differential as a percentage-based increase to salary which would provide an ongoing incentive to enter and remain in the supervisory position to which the differential applies. The application of a supervisory differential would be at the discretion of the agency. It is fair to say that the Committee had a thorough, and at times robust, discussion of this issue.

On the one hand, the Committee recognizes that supervisors in the Federal service are subject to many pressures. They are burdened by many time-consuming administrative duties such as developing performance standards, conducting appraisals, documenting performance, conducting progress reviews, writing awards nominations, monitoring time and attendance, taking disciplinary actions, counseling employees, responding to grievances and EEO complaints, etc. Time must be taken away from the regular work of the organization to conduct these duties and the supervisor often spends many extra hours performing his or her responsibilities.

In terms of recruitment and retention, particularly for hard-to-fill positions, there is much to argue in favor of a provision which provides, perhaps, a 6 percent supervisory pay differential. While current provisions for retention bonuses deal with situations where an individual is likely to leave Federal service, they do nothing in the case, for example, where a valuable manager seeks a reassignment to a non-PMRS position because he or she has had enough of the aggravation accompanying supervisory responsibilities. A differential would provide an incentive to enter and remain in the system and make a statement to those in the PMRS, and to those who might aspire to it, that being a PMRS supervisor is something deserving of special financial recognition.

On the other hand, a differential that consists of an across-the-board pay increase to PMRS supervisors does not seem to recognize that the classification system, in large measure, takes supervisory responsibilities into account when the grade levels of such positions are determined. Also, the financial impact of implementing a Government-wide differential could be significant.

The Committee concluded that supervisory differentials should be part of a package of tools available to agencies to attract and retain skilled employees in certain categories of the PMRS, and as a means to deal with special situations such as inequities among different pay systems. In the scientific and engineering fields, for example, differentials may well be a necessary incentive to convince people to enter or remain in the managerial ranks.

We envision agencies making their own decisions with regard to the payment of supervisory differentials and the range of positions to which they apply. Agencies would not be specifically precluded from applying a supervisory differential agency-wide, but would be required to adhere to parameters set by OPM regulation as well as budgetary constraints. In the Committee's view, loss of the differential (e.g., because of a lateral reassignment to a non-supervisory position), in and of itself, should not be an action otherwise appealable to MSPB.

RECOMMENDATIONS:

31. **Revise 5 U.S.C. 5405 to provide for the payment of differentials to PMRS supervisors. The payment of such differentials would be at the discretion of each agency, subject to appropriate criteria set forth in OPM regulation.**

32. **Exclude actions discontinuing payment of differentials from appellate jurisdiction of the Merit Systems Protection Board.**

F. System and Program Administration

Training

Based in part on PMRS employee survey information, as well as its own observations, the Committee believes that insufficient and ineffective training has been part of the problem with PMRS administration. We doubt that many rating and reviewing officials have been properly trained in the areas of writing standards and preparing and issuing appraisals. Lack of program understanding among some PMRS rating and reviewing officials translates into a failure to give program administration the attention it deserves. PMRS employees certainly see the importance that the annual PMRS rating has in their pay raises and awards; they deserve, but many apparently do not expect, to know that rating and reviewing officials have been adequately trained in the principles and procedures of a system that has such a material impact on them. Failure to adequately train rating and reviewing officials in any new system that may result from this Committee's review would subject the new program to many of the same criticisms leveled on the manner in which the system currently operates.

Throughout its review process, the Committee has been reluctant to recommend actions which would excessively dictate to agencies, or which would not be susceptible to broad delegation of authority. However, in this instance, we believe that there should be clear requirements for PMRS rating and reviewing officials, and others involved in the administration and implementation of the PMRS, to receive appropriate training; for new managers and supervisors to receive ongoing training; and for incumbents to receive refresher training. In the Committee's view, OPM should serve as the lead agency in mandating the training, developing the technical requirements and course content, offering interagency courses and making a training package available to agencies which lack the resources to develop their own or the funds to send staff to OPM programs.

RECOMMENDATIONS:

33. Amend 5 CFR Part 540 to require training for PMRS rating and reviewing officials and others involved in the administration and implementation of the PMRS, for new managers and supervisors, and for incumbents. The specific content and duration of the training would be specified by OPM.

34. Establish OPM courses to meet this requirement.

35. Make an OPM-approved training package available for in-house training.

Communications Strategy

The Committee believes that considerable attention must be given to clearly communicating the changes made to the PMRS as well as their significance. Federal agencies, professional and management associations, Senior Executive Service and Senior Level employees who manage or supervise PMRS staff, personnel offices and PMRS employees themselves are the prime audiences which must be addressed. We recommend that a significant effort must be made to announce, communicate, explain and, perhaps, "sell" any new system to its constituents.

RECOMMENDATION:

36. OPM should encourage agencies to develop communications strategies. These could include training for all PMRS employees, as well as newsletters, presentations, and focus groups.

Performance Improvement Plans/Performance-Based Actions

The Committee recommends no change to the requirement for PIP's or to the requirement or procedures mandated for performance-based actions. Current law provides that any PMRS employee rated below Fully Successful may be reassigned, reduced in grade, or removed once he or she has been afforded an opportunity to improve to the Fully Successful level.[8] Each such employee must be given a performance improvement plan which must include, along with such other matters as the agency may consider appropriate, a description of the types of improvements that the employee must demonstrate to attain the Fully Successful level of performance and a reasonable period of time to attain that level. We would point out that under a two-level appraisal system, failure to attain the higher level would subject the individual to a PIP and possible performance-based action.

Link to Reduction-in-Force

Current OPM regulations provide specific additional length-of-service credit based on various adjectival performance ratings. For example, an employee with a rating of Outstanding would receive 20 additional years of service credit; an employee with a rating of Fully Successful would receive 12 additional years of service credit. In a RIF, the number of additional years of service credit (based on the last three performance ratings of record) are averaged. Thus, an employee with three ratings of record of Outstanding over the past three years would receive 20 additional years of service credit and an employee with three ratings of record of Fully Successful over the past three years would receive 12 additional years of service credit. For RIF purposes, the difference in the number of years of service credit for the employee rated Outstanding and the employee rated Fully Successful over the past three years, therefore, is 8 years. These regulations are based on 5 U.S.C. 3502, which requires that performance ratings be given "due effect" in determining retention standing, a term not further defined in the law. The Committee agrees that performance should be considered when determining who is to stay and who is to go; a RIF system which is based entirely on seniority does a disservice to both the superior performer and the taxpayer. Such a system may also have a potentially disparate impact on minorities and women. On the other hand, the Committee found some credibility in the criticism often leveled at agencies facing reductions that some performance ratings are unfairly manipulated to give extra service credit without sufficient justification.

The Committee's preference would be for individual agencies to be able to address this issue as considered appropriate for their particular structure, size and situation, keeping in mind that RIF competitive areas are not determined by PMRS coverage. In other words, the displacements generated in a RIF would not necessarily be restricted to or excluded from the PMRS category.

Therefore, whatever scheme is used to give "effect" to performance in a RIF must, in our view, apply consistently across-the-board for all pay plans.

RECOMMENDATION:

37. **Amend 5 CFR 351.504 to permit agencies to determine, in consultation with management associations, how to apply the statutory requirement to consider performance for retention purposes, subject to advance approval by OPM.**

Link to Competitive Promotion

A competitive promotion is one requiring systematic, merit-based measurement, ranking, and selection of candidates. For each such action, agencies are currently directed to give "due weight" to performance appraisals and incentive awards. The Committee found no significant problems or criticism of the current manner in which performance appraisals and incentive awards are factored into a competitive promotion decision. Therefore, we have no recommendations to offer in this area.

Evaluation

The Committee believes that the changes recommended to the current PMRS, once implemented, will require agency evaluation to assess their overall effectiveness; to identify what impact the changes have on employee and organizational productivity; and to ascertain if the link between pay and performance is strengthened.

In addition to agency-conducted evaluations, the Committee encourages periodic, external assessments of Federal pay-for-performance programs. The Committee believes that objective evaluations by oversight agencies and other independent experts will create a body of empirical evidence from which long-range assessments of Federal pay-for-performance programs can be made.

RECOMMENDATION:

38. Require agencies to conduct comprehensive evaluations of the PMRS within their organizations once the changes to the current system have been fully implemented. In most instances, the initial evaluation will be no later than one year after the changes have been implemented.

NOTES

1. National Research Council, *Pay for Performance: Evaluating Performance Appraisal and Merit Pay*, National Academy Press, Washington, DC, 1991, p. 144.
2. Ibid., pp. 147-149.
3. Ibid., p. 73.
4. Ibid., p. 155.
5. 5 U.S.C. § 4301(3).
6. National Research Council, op. cit., p. 89.
7. Ibid., p. 38.
8. 5 U.S.C. § 4302a(b).

CHAPTER V: CONCLUSIONS

The Committee supported the concept of pay-for-performance for Federal managers and recognized that despite ongoing problems with implementation and funding, the PMRS has improved upon the earlier Merit Pay System. The Committee agreed that recent statutory changes, including eliminating mandatory bonus amounts for some employees and authorizing the use of work objectives in performance appraisal, could also result in mollifying some criticisms of the PMRS. The Committee recommended continuation of an incremental approach to making the PMRS more credible, more effective and more responsive, rather than the creation of an entirely new system.

The following specific recommendations were based on criteria which addressed the entire spectrum of problems with the PMRS, including negative employee perceptions, deficiencies in communications and training, lack of meaningful employee involvement, and ratings distortions. The recommended changes balance Governmentwide policies which simplify the PMRS and move toward a truly performance-based appraisal process against the Committee's belief that agencies should be permitted flexibility to expand and adapt pay-for-performance for their particular structure, culture, and objectives.

The following are the Committee's recommendations to improve the PMRS for Federal managers and supervisors:

1. **Encourage agency flexibility including controlled experimentation that facilitates the collection of valid, empirical information; and formal, long-term evaluation of program effectiveness.**

2. **Permit agencies, subject to consultation with affected employees and OPM approval, to extend PMRS coverage below the grade 13 level to other managers and supervisors, consistent with the statutory definitions of "management official" and "supervisor."**

3. **Agencies should be specifically authorized to reprogram funds internally to provide additional funding for the PMRS, where considered necessary by the agency and where such authorization is needed. This would not preclude agencies from requesting additional appropriations specifically for PMRS funding.**

4. **There should be a Governmentwide requirement for a regular--normally annual--documented individual appraisal and for at least one progress review during the course of the year. Continuous feedback should occur throughout the year.**

5. Require that supervisors clearly communicate performance expectations to employees.

6. Enforce existing provisions that mandate PMRS employee involvement in the development of elements and standards and/or work objectives.

7. Provide employees the training needed to enable them to actively participate in the performance assessment process.

8. Train supervisors of PMRS employees in appropriate communication techniques as well as the mechanics of the performance appraisal system.

9. The PMRS should continue the agency option to use statements of work objectives in addition to, or in place of, performance elements and standards. Agencies would still be required to identify those elements of the PMRS employee's job considered critical or essential for retention.

10. OPM should encourage agencies to use measures of organizational performance in recognition of supervisory and managerial responsibilities not only for their individual performance, but also for the organizations they direct.

11. OPM should encourage agencies to experiment with new evaluation methods and to collect documentation and empirical evidence to expand and validate the sources of input to the appraisal process.

12. Agencies should evaluate the effectiveness of expanding the sources of appraisal input.

13. Simplify the PMRS performance appraisal system by using only two summary ratings.

14. Maintain in the PMRS the current system of elements and standards and/or work objectives. Use only two levels to rate performance of elements and/or work objectives consistent with a two-level rating system.

15. Allow agencies to determine the names of the rating levels.

16. Grant ECI-based increases, locality increases, and merit pay increases only to employees who are performing at or above the proficient/successful level.

17. If Congress develops a Governmentwide merit pay system that provides for granting merit increases based on proficient/successful performance, the following scheme is suggested: grant a full merit increase to those in the first tercile and one-half an increase to those in the second and third terciles of the pay range.

18. Authorize agencies to budget additional salary money in order to develop alternative merit pay demonstration projects that are more performance-contingent, subject to consultation with employees and professional/management associations and OPM approval.

19. Retain the current 1.15 percent of PMRS aggregate payroll minimum funding level for PMRS performance awards.

20. Eliminate the current 1.5 percent of PMRS aggregate payroll as a ceiling on the funding level for PMRS performance awards.

21. Encourage agencies, through OPM regulation, to set up peer review panels for PMRS awards.

22. Require agencies which implement peer review to consult with and include recognized professional/management associations as appropriate.

23. Provide, through the Federal Personnel Manual (FPM), guidance, advice, and models/examples of peer review procedures to assist agencies in setting up and evaluating such procedures.

24. Delink specific award amounts/ranges from specific summary rating levels.

25. While we do not specify a minimum performance award as the SES system does, we recommend that OPM guidance be given to agencies that both individual and group performance awards should be meaningful and reflect significant differences in level of achievement.

26. Create a system which would allow for accelerated movement through the pay range. In addition to the regular merit increase given to all employees rated proficient/successful under a two-level rating system, the rate of movement by means of this award would be no more than the equivalent of one full step-increase in the first tercile and the equivalent of one-half step-increase in the second and third terciles. Use of accelerated movement would be optional with agencies and, when used, objective criteria should be established to determine how it is used.

27. Encourage agencies to use both monetary and nonmonetary awards to recognize performance.

28. Establish two Governmentwide awards for PMRS employees, to be administered by OPM. One would be in recognition of Distinguished Service, and the other in recognition of Meritorious Service. The recommended award amounts would be $10,000 and $5,000 respectively (paid by the employing agency). The numbers of recipients for each level of award would be determined by OPM.

29. Encourage agencies to recognize group performance, either monetarily or nonmonetarily, utilizing existing OPM regulations and appropriate FPM guidance. Exemplary models of group incentives should be provided by OPM to assist agencies.

30. Revise 5 U.S.C. 6304 to provide an annual leave ceiling of 45 days for PMRS employees.

31. Revise 5 U.S.C. 5405 to provide for the payment of differentials to PMRS supervisors. The payment of such differentials would be at the discretion of each agency, subject to appropriate criteria set forth in OPM regulation.

32. Exclude actions discontinuing payment of differentials from appellate jurisdiction of the Merit Systems Protection Board.

33. Amend 5 CFR Part 540 to require training for PMRS rating and reviewing officials and others involved in the administration and implementation of the PMRS, for new managers and supervisors, and for incumbents. The specific content and duration of the training would be specified by OPM.

34. Establish OPM courses to meet this requirement.

35. Make an OPM-approved training package available for in-house training.

36. OPM should encourage agencies to develop communications strategies. These could include training for all PMRS employees, as well as newsletters, presentations, and focus groups.

37. Amend 5 CFR 351.504 to permit agencies to determine, in consultation with management associations, how to apply the statutory requirement to consider performance for retention purposes, subject to advance approval by OPM.

38. Require agencies to conduct comprehensive evaluations of the PMRS within their organizations once the changes to the current system have been fully implemented. In most instances, the initial evaluation will be no later than one year after the changes have been implemented.

GLOSSARY/ABBREVIATIONS

GLOSSARY

Agency: A major organization in the executive branch, usually at the department level. Examples of agencies are the Department of Health and Human Services (HHS), the Department of Defense (DOD), the Department of Commerce, etc. Also referred to as "executive agency."

Flexibility: Refers to latitude given to organizations, usually at the Agency level, to implement, modify, and/or reject certain aspects of the performance system as conditions, cultures, and the environment within their organizations warrant. It is often used in the context of decentralization of certain elements of the PMRS.

GM: Pay plan designation for employees covered under the PMRS; originally used to designate General Schedule employees covered by the Merit Pay System.

Management Official: An individual employed by an agency in a position the duties and responsibilities of which require or authorize the individual to formulate, determine, or influence the policies of the agency. (5 U.S.C. § 7103(a)(11))

Supervisor: An individual employed by an agency having authority in the interest of the agency to hire, direct, assign, promote, reward, transfer, furlough, layoff, recall, suspend, discipline or remove employees, to adjust their grievances, or to effectively recommend such action, if the exercise of the authority is not merely routine or clerical in nature but requires the consistent exercise of independent judgment. (5 U.S.C. § 7103(a)(10))

Tercile: A portion of the pay range for a GM grade that represents one of three segments when the full range, from the minimum rate (Step 1) for that grade in the General Schedule to the maximum rate (Step 10) for that grade, is divided into thirds. The first tercile corresponds roughly to the first three steps of the General Schedule; the second tercile corresponds to the fourth through sixth steps of the General Schedule; the third tercile corresponds to the seventh through tenth steps of the General Schedule.

ABBREVIATIONS

CSRA:	Civil Service Reform Act.
DOD:	Department of Defense.
ECI:	Employment Cost Index.
EEO:	Equal Employment Opportunity.
FACA:	Federal Advisory Committee Act.
FEPCA:	Federal Employees Pay Comparability Act.
FMA:	Federal Managers Association.
FPM:	Federal Personnel Manual.
FSRA:	Federal Salary Reform Act.
GAO:	General Accounting Office.
GM:	Pay plan designation for PMRS employees (see Glossary).
GS:	General Schedule.
MSPB:	U.S. Merit Systems Protection Board.
NRC:	National Research Council.
OPM:	U.S. Office of Personnel Management. (also USOPM)
PFPLMC:	Pay-for-Performance Labor-Management Committee.
PIP:	Performance Improvement Plan.
PMA:	Professional Managers Association.
PMRS:	Performance Management and Recognition System.
QSI:	Quality Step Increase.
RIF:	Reduction-in-Force.
SES:	Senior Executive Service.
SSMA:	Social Security Management Associations, Inc.
TQM:	Total Quality Management.
WGI:	Within-Grade Increase.

APPENDIXES

APPENDIX A

PMRS OVERVIEW

THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

AN OVERVIEW

The Performance Management and Recognition System (PMRS) was established by law in 1984. It covers supervisors and management officials in grades 13 through 15 of the General Schedule. The pay ranges are the same as those for the General Schedule (non-management white-collar pay system) at the same grade levels.

The performance appraisal system for PMRS employees requires five summary rating levels: level 5 (Outstanding) is the highest level and level 1 (Unacceptable) is the lowest. Level 3 represents the Fully Successful level of performance. Ratings are assigned based on a comparison of the employee's performance against elements and standards and/or work objectives specified for the employee's position. Performance that is less than level 3 requires a performance improvement plan and, if performance does not improve to and remain at level 3, it could result in demotion or removal from the job.

Every January, the General Schedule is adjusted by a general comparability increase percentage. PMRS employees rated level 3 or above receive the full general increase. Employees rated at level 2 receive half of the general increase and employees rated at level 1 receive no general increase.

PMRS offers employees the opportunity to advance within the pay range through merit increases in their rates of basic pay. PMRS employees receive merit increases based on their ratings of record and their position in the pay range.

For the purpose of granting merit increases, the pay range is divided into thirds or "terciles." (Table 1)

> Employees rated at level 5 receive a full merit increase regardless of their position in the pay range.
>
> Employees rated at level 4 receive a full merit increase if their salaries are in the first third of the pay range and one-half of a merit increase if their salaries are in the upper two-thirds of the pay range.
>
> Employees rated at level 3 receive a full merit increase if their salaries are in the first third of the pay range, one-half of a merit increase if in the second third, and one-third of a merit increase if in the top third of the pay range.

TABLE 1

MERIT INCREASE (MI) FORMULA

RATING LEVEL	1st TERCILE	2nd TERCILE	3rd TERCILE
5 - Outstanding	Full MI	Full MI	Full MI
4 - Exceeds Fully Successful	Full MI	1/2 MI	1/2 MI
3 - Fully Successful	Full MI	1/2 MI	1/3 MI
2 - Minimally Successful	-0-	-0-	-0-
1 - Unacceptable	-0-	-0-	-0-

This formula provides for movement through the pay range for employees rated at level 3 which is equal to that for employees paid under the General Schedule. The formula provides employees rated at levels 4 and 5 with accelerated movement through the pay range.

All PMRS employees rated level 3 or higher are eligible for one-time lump-sum "bonus" payments called performance awards. Agencies are required to spend at least 1.15 percent, and no more than 1.5 percent, of PMRS payroll for these awards.

Upon promotion within the PMRS, an employee receives an increase of 6 percent over his or her previous salary.

PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM REVIEW COMMITTEE CHARTER

A. OFFICIAL DESIGNATION: Performance Management and Recognition System Review Committee.

B. OBJECTIVES AND SCOPE: As authorized by the Performance Management and Recognition System Amendments of 1991 Act (P.L. 102-22), the committee will review the Performance Management and Recognition System (PMRS) and advise the Office of Personnel Management (OPM) on recommended policy for a fair and effective performance management system for Federal managers. The committee will submit a report with recommendations to the Director of OPM on November 5, 1991, or such other date as the Director of OPM may determine. The committee will be headed by a chairman and will include other members from organizations representing Federal employees who are covered under the Performance Management and Recognition System and from Federal agencies employing PMRS employees.

C. DURATION: The committee is established as of the date of the signing of this charter by the Director of OPM. The committee will terminate within 60 days after the release of its report to OPM.

D. RESPONSIBLE OFFICIALS: The chairman of the committee, who may be paid at a rate of basic pay for the Senior Executive Service (SES) (unless otherwise an employee of the Federal Government), will be appointed by the Director of OPM and will lead the committee in its deliberations. The Associate Director for Personnel Systems and Oversight, OPM, will serve as the Designated Federal Official (DFO) to the committee.

E. AGENCY PROVIDING SUPPORT: OPM may provide the committee with staff and administrative support. The Director, OPM, or her designee, will fulfill the responsibilities of an agency head as listed in the Federal Advisory Committee Act.

F. COMMITTEE RESPONSIBILITIES: The committee is advisory; its primary responsibility is to review the PMRS and advise OPM on recommended policy for a fair and effective performance management system for Federal managers. In carrying out its responsibilities, the committee shall coordinate its efforts with those of the Pay-for-Performance Labor-Management Committee to the extent those committees consider appropriate and will submit a report to the Director, OPM, on November 5, 1991, or such other date as the Director may determine. Subcommittees of the committee may be formed as necessary.

G. ESTIMATED ANNUAL OPERATING COSTS IN DOLLARS AND FULL-TIME EQUIVALENTS: The estimated annual operating expenses of the committee are $100,000. These expenses include a part-time SES executive's salary, .75 professional staff FTE, and funds to cover materials and printing expenses incurred by the committee.

APPENDIX B

COMMITTEE CHARTER

H. ESTIMATED NUMBER AND FREQUENCY OF MEETINGS: It is contemplated that the committee will meet on a monthly basis; additional meetings may be scheduled when deemed necessary.

I. FILING DATE:

APPROVED:

Constance Berry Newman
Director, OPM

APR 4 1991
Date

APPENDIX C

LIST OF MEETINGS

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LIST OF MEETINGS

Meeting	Date
Meeting One	April 24, 1991
Meeting Two	June 11, 1991
Meeting Three	June 27, 1991
Meeting Four	July 16, 1991
Meeting Five	August 6, 1991
Meeting Six	August 16, 1991
Meeting Seven	September 10, 1991
Meeting Eight	September 26, 1991
Meeting Nine	October 8, 1991
Meeting Ten	October 18, 1991
Meeting Eleven	October 29, 1991
Meeting Twelve	November 26, 1991

All meetings were held at the U.S. Office of Personnel Management in Washington, DC.

Minutes of all meetings are available to the public in the OPM Library at 1900 E Street, NW., Washington, DC 20415.

APPENDIX D

COMMITTEE MEMBERSHIP AND SUPPORT

MEMBERSHIP ROSTER

Mr. Herbert R. DOGGETTE, Jr.
Chairman
PMRS Review Committee

Ms. Helene A. BENSON
President
Professional Managers Association

Ms. Jeanne FITES
Principal Director for Requirements and Resources
Office of the Assistant Secretary for Force Management and Personnel
Department of Defense

Mr. Alfred A. HOLSTON
Director of Personnel Management Services
National Capital Service Center
Department of Labor

Mr. David S. ORR
Chairman of the Small and Independent Agency Personnel Directors Group
Director
Office of Personnel and Labor-Management Relations
Federal Election Commission

Mr. Daniel SMITH
National President
Social Security Management Associations, Inc.

Mrs. Elizabeth W. STROUD
Director of Personnel
Department of Commerce

Mr. Michael B. STYLES
National President
Federal Managers Association

Mr. Socorro VELAZQUEZ
Director of Tax Administration Advisory Services
Internal Revenue Service
Department of the Treasury

Ms. Elaine B. WRIGHT
Director
Office of External Affairs
Region III
Environmental Protection Agency

BIOGRAPHICAL SKETCHES OF COMMITTEE MEMBERS

Herbert R. Doggette, Jr., Chairman of the Performance Management and Recognition System Review Committee, is currently a full-time student in the Policy Sciences doctoral program at the University of Maryland in Baltimore County. He retired from the Social Security Administration (SSA) in March 1990, after a 34-year career in the Federal service. At the time of his retirement he was the Deputy Commissioner for Operations with responsibility for all of SSA's field and computer operations. He is a member of the National Academy of Social Insurance and has a B.A. degree in business administration from the University of Maryland and an M.S. degree in public administration from the George Washington University.

Helene A. Benson is a Division Chief in the Department of Labor's (DOL) Pension and Welfare Benefits Administration, which regulates private sector employee benefit plans. She is also the President of the Professional Managers Association, a national association of Federal mid-level managers formed in response to the 1978 Civil Service Reform Act. Helene has also worked in the area of public information, writing speeches, booklets, etc. She has over 25 years of Federal service and has received numerous awards throughout her career with DOL, including the Secretary's Distinguished Achievement Award. Helene has a B.A. degree from Dunbarton College of Holy Cross.

Jeanne B. Fites is currently Principal Director to the Deputy Assistant Secretary of Defense (Requirements and Resources), Office of the Assistant Secretary of Defense (Force Management & Personnel) with responsibilities for program and budget, congressional affairs, and Defense support to international special events. She entered government service as a research psychologist for the U.S. Marine Corps, and served as Assistant Director of the Defense Manpower Data Center, and Director for Intergovernmental Affairs and Director, Programs, Research & Analysis for the Assistant Secretary of Defense (Manpower, Reserve Affairs, & Logistics). She has a B.S. degree in psychology from Wake Forest University and an M.S. degree in psychology from the George Washington University. She is a recipient of the President's Meritorious Executive Rank Award, 1982, 1991, and the Defense Meritorious Civilian Service Award, 1981, 1984, 1989.

Alfred A. Holston is currently the Director of the Office of Personnel Management Services in the Department of Labor. In this capacity he is responsible for planning, implementing and directing a comprehensive Personnel Program for the Office of the Secretary/Deputy Secretary of Labor and other key policy and regulatory agencies within the Department. Over a 20-year Federal career, he has held previous positions such as Director, Personnel Policy Programs, Naval Sea Systems Command; Director, Labor/Employee Relations, Long Beach Naval Shipyard; and National Labor Relations Representative for the U.S. Customs Service. He is a recipient of numerous Special Achievement awards for his performance and is the recipient of the Department of Navy's Meritorious Civilian Service Award. He received his B.A. degree from Fort Valley State College in Georgia.

David S. Orr is the Director of Personnel & Labor Relations for the Federal Election Commission. He has held a variety of positions in the personnel/labor relations field with the U.S. Naval Oceanographic Office, the Defense Mapping Agency, ACTION and the U.S. Customs Service. He is a member of the Society of Federal Labor Relations Professionals, the International Personnel Management Association (IPMA) (serving on the Board of Directors of IPMA's Federal Section) and is Chairman of the Small and Independent Agency Personnel Directors Group. Mr. Orr holds a B.S. degree in sociology from the Ohio State University and an M.A. degree in sociology from the University of Cincinnati.

Daniel M. Smith is currently the Assistant District Manager for the Social Security Administration in Augusta, Georgia. He is also the President of the National Council Social Security Management Associations (SSMA). Daniel has held previous positions as Branch Manager, Operations Supervisor and Claims Representative with the Social Security Administration and has held positions as National Council Vice President with SSMA and Vice President, Area Vice President and Committee Chairman with the Atlanta Region Management Association. Daniel is a graduate of Clemson University with a degree in English.

Elizabeth W. Stroud is the Director of Personnel at the Department of Commerce. She has held previous positions as Personnel Officer, National Cancer Institute, National Institutes of Health; and Personnel Officer at the National Institute of Standards and Technology (NIST). In that capacity, she played a major role in the development and implementation of the legislated NIST Personnel Demonstration Project, and was presented a Silver Medal for that effort. She is a member and award recipient of the International Personnel Management Association, and a graduate of the University of North Carolina.

Michael B. Styles is National President of the Federal Managers Association (FMA), the oldest and largest professional association of managers and supervisors in the Federal government. Mr. Styles serves as the Tactical Data Systems Manager for the Marine Corps Communication-Electronics School at the Marine Corps Air Ground Combat Center in 29 Palms, California. A Federal employee for 31 years, Mr. Styles has held supervisory and management positions in the Federal government for 16 years. He was elected National President of FMA in 1990.

Socorro Velazquez is presently the Director for the Office of Tax Administration Advisory Services; under his leadership the Internal Revenue Service (IRS) provides tax administration assistance to foreign countries worldwide. His career with the IRS started in 1975 in San Juan, Puerto Rico. He entered into the management career path in 1979 and has had ever increasing responsible management positions leading to his present job. In May 1991, he chaired the 25th Anniversary meeting for the Inter-American Center for Tax Administrators. Mr. Velazquez received his B.A. degree in education at the Inter-American University in San Juan, Puerto Rico.

Elaine Brennan Wright is the Director, Office of External Affairs in Region III, U.S. Environmental Protection Agency (EPA). She has held numerous positions in the fields of personnel and management at the Internal Revenue Service and EPA including Personnel Officer and Deputy Assistant Regional Administrator for Policy and Management. She is currently a member of EPA's SES Candidate Development Program. Elaine has a B.A. degree in political science from Mary Washington College, a Masters degree in counseling from the University of Virginia, and an MBA degree from Widener University.

ALTERNATE COMMITTEE MEMBERS

AND SUPPORT STAFF

Andrew Carlin	Human Resources Officer, EPA Region III.
Robert S. Duncan	Branch Manager, Social Security Administration, Columbia, Missouri.
Janet Garry	Legislative Representative for Social Security Management Associations, Neill and Shaw.
Catherine A. Leyser	Deputy Director of Taxation, U.S. Railroad Retirement Board and Chairperson, Performance Management Task Force, Federal Managers Association.
Bruce L. Moyer	Legislative Counsel, Federal Managers Association.
William W. Pearman	Area Manager, Washington Air Route Traffic Control Center, Federal Aviation Administration and President, Chapter 141, Federal Managers Association.
Gene E. Porter	Director, Office of Resources Management, Internal Revenue Service.
Marybeth Sisson	Personnel Management Specialist, Department of Defense.
Janice B. Smith	Performance Management Program Officer, Department of Commerce.
Paul E. Trayers	Executive Director, Federal Managers Association.

OPM STAFF

Allan Heuerman	Assistant Director for Labor Relations and Workforce Performance
Doris Hausser	Chief, Performance Management Division
Nancy Randa	Policy and Program Development Team Leader
Peggy Higgins	Chief, Performance Management Branch
Efstathia Siegel	Principal Staff Assistant to the Performance Management and Recognition System Review Committee
Jack Andrews	Personnel Management Specialist
Emily Bennett	Personnel Management Specialist
Barbara Colchao	Personnel Management Specialist
Jean Davis	Secretary
Robert Donovan	Personnel Management Specialist Trainee
Marilyn Geldzahler	Personnel Management Specialist
William Oswald	Mid-Level Associate on detail from the Food and Drug Administration
Rachel Steed-Carlson	Personnel Management Specialist
Patricia M. Stewart	Personnel Management Specialist on detail from the Directorate of Civilian Personnel, Headquarters United States Air Force

APPENDIX E

CRITERIA FOR EVALUATING PROPOSALS

79

CRITERIA FOR EVALUATING PROPOSALS

1. **Linking Pay, Recognition and Retention with Individual/ Organizational Performance**

   The proposal must:

   - demonstrate a linkage between pay and individual performance.
   - provide performance-driven increases to base pay.
   - fit into an overall performance-based compensation system.
   - provide for consideration of organizational performance to pay and awards, both on an individual and group basis.
   - promote excellence.
   - contribute to mission accomplishment.
   - address long-term goals as well as relatively short-term projects.
   - provide a mechanism for assisting less-than-satisfactory performers.
   - provide a relatively simple system of due process for taking actions against less-than-satisfactory performers who do not improve.
   - enable managers to make meaningful distinctions among employees based on performance.
   - provide for performance-based retention criteria.

2. **Encouraging Employee Achievement and Participation**

   The proposal must:

   - provide incentives for supervisory status, i.e., higher leave ceiling, differentials, paid educational opportunities, etc.
   - provide for clear, simple statements of performance expectations (elements and standards or work objectives), which address individual, group, and organizational performance.

- provide for meaningful input by employee and/or professional associations to the selection, development, and implementation of the performance program.

- facilitate frequent, constructive communication between supervisor and employee.

- provide meaningful rewards in recognition of excellence, regardless of place in pay range.

- provide for measurement of performance against a standard, rather than against other employees.

- provide for at least two rating levels.

- provide for some form of peer review.

- permit the use of nonmonetary recognition.

3. **Linkage to Training and Development**

The proposal must:

- identify employee career development opportunities and indicate areas where technical/administrative training would be appropriate.

4. **Responsiveness to Agency Mission, Culture, and Needs**

The proposal must:

- be compatible with other systems (pay, classification, merit promotion, TQM).

- be flexible/adaptable to a variety of organizational structures, positions, localities, and changing needs.

- be capable of being decentralized to sub-agency levels.

- permit agencies to de-link performance rating scores from award decisions.

- be market-sensitive, providing for adjustments to entry level pay and retention bonuses.

- permit conversion to and from demonstration projects.

5. Ease of Administration and Understanding

The proposal must:

- provide effective means for managers to adjust pay, grant recognition, and make other performance-based decisions.

- be workable, easy for supervisors and employees to understand and administer.

- take into account the administrative transition from existing systems.

6. Fairness

The proposal must:

- ensure that, by and large, employees rated fully successful or higher are not disadvantaged relative to base pay and increases in base pay under the current PMRS system.

- maintain the entitlement to comparability pay increases for "Fully Successful" and above.

- provide for employee requests for reconsideration of pay decisions.

- permit inter-agency transfers without adverse impact on pay, awards, or retention.

- provide for higher-level management review of pay and award decisions.

7. Adequate Funding

The proposal must:

- estimate the impact on funding.

- specify if additional funding is required.

- fit into an overall compensation package which is comparable to the private sector.

- be consistent with FEPCA.

- provide for an increase in the overall PMRS pay level (i.e., higher ceiling not exceed minimum SES level).

8. Acceptability to Internal/External Audiences

The proposal must:

- be marketable to:

  - Employees
  - Managers
  - Administration
  - Congress
  - Public

- (if additional funding is required) demonstrate a return on the investment in terms of turnover, higher productivity, etc., and/or comparability with private-sector compensation systems.

- be compatible with other pay systems (e.g., GS/SES/SL).

9. Responsibility and Accountability of Managers

The proposal must:

- involve managers in the development of the system.

- give managers a stake in its success.

- provide for managers to be adequately trained to administer the program.

- provide for appraisal on general supervisory factors, such as EEO, A-123, personnel administration, and agency-specific elements.

10. Evaluation

The proposal must:

- provide for periodic internal evaluation and assessment, with employee input.

- provide for periodic external review and evaluation by OPM and MSPB.

- permit ongoing comparative studies of the final product of this Committee's report with other types of systems, to determine if there is any value in the use of performance-based pay systems.

APPENDIX F

PRESENTERS LISTED BY MEETING

LIST OF PRESENTERS BY MEETING

Meeting One, April 24, 1991:

• Barbara Fiss, Assistant Director for Pay and Performance, Office of Personnel Management: Brief History and Overview of the PMRS.

• Donna Beecher, Assistant Director for Systems Innovation and Simplification, Office of Personnel Management: Briefing on the National Research Council Report, "Pay for Performance."

Meeting Two, June 11, 1991:

• Randy Riley, Civilian Personnel Officer, Naval Ocean Systems Center: Briefing on the Navy Demonstration Project.

Meeting Three, June 27, 1991:

• Gary Brumback, Ph.D., Project Director: PMRS Pilot Study in the Department of Health and Human Services.

• Denny Crouch, Senior Quality Executive, Federal Quality Institute: Total Quality Management and Performance Management.

Meeting Four, July 16, 1991:

• Pat Bradshaw, Acting Director, Staffing and Career Management, Office of the Secretary of Defense: Department of Defense Perspective on Performance-Based Pay.

• Richard W. Beatty, Ph.D., Professor of Industrial Relations and Human Resources, Institute of Management and Labor Relations, Rutgers University: Private-Sector Experiences with Performance Management.

• Bernard L. Ungar, Director of Federal Human Resources Management Issues, General Accounting Office: GAO Experience and Perspective on Governmentwide Pay-for-Performance.

Meeting Six, August 16, 1991:

• W. Edwards Deming, Ph.D.: Performance Management.

Meeting Eight, September 26, 1991:

• Gregory Zygiel, Chief, Policy and Special Projects Staff, Office of Classification, OPM: Classification and the Supervisory Grade Evaluation Guide.

APPENDIX G

PMRS EEO DATA

Distribution of Full-Time Permanent Employees
in the Performance Management and Recognition System
September 1990

by Race/National Origin

Native American	Asian	Black	Hispanic	Other
1,325	2,701	9,384	3,485	127,796
0.9%	1.9%	6.5%	2.4%	88.3%

by Gender

Female	Male
25,825	118,866
17.8%	82.2%

Distribution of Full-Time Permanent Employees *
in the Performance Management and Recognition System
September 1990

by Race/National Origin and Rating Level

RATING LEVEL**	Native American	Asian	Black	Hispanic	Other
1	1 1.3%	1 1.3%	5 6.3%	3 3.8%	69 87.3%
2	10 4.4%	8 3.6%	21 9.3%	12 5.3%	174 77.3%
3	267 1.0%	651 2.3%	2,213 7.9%	822 2.9%	23,998 85.9%
4	646 0.9%	1,310 1.8%	4,674 6.6%	1,690 2.4%	62,909 88.3%
5	376 0.9%	701 1.6%	2,335 5.3%	921 2.1%	39,399 90.1%

by Gender and Rating Level

RATING LEVEL**	Female	Male
1	9 0.0%	70 0.1%
2	27 0.1%	198 0.2%
3	4,149 16.3%	23,802 20.2%
4	11,738 46.2%	59,491 50.5%
5	9,480 37.3%	34,252 29.1%

* Percentages indicate percent of row totals.
** Rating levels range from lowest (1) to highest (5).

Distribution of Full-Time Permanent Employees
in the Performance Management and Recognition System

**Who Received Performance Awards
in FY 1990**

by Race/National Origin

Native American	Asian	Black	Hispanic	Other
950	1,697	6,126	2,280	89,396
0.9%	1.7%	6.1%	2.3%	89.0%

by Gender

Female	Male
18,416	82,033
18.3%	81.7%

APPENDIX H

REFERENCES AND SUPPORTING DOCUMENTS

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••Chapter 43 - Performance Appraisal, subchapter 1 (including § 4302a - Establishment of performance appraisal system for PMRS employees).
••Chapter 54 - Performance Management and Recognition System.

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APPENDIX I

MATRIX OF MEMBERS' PROPOSALS

COMMITTEE MEMBERS	PROPOSAL 1	PROPOSAL 2	PROPOSAL 3	PROPOSAL 4	PROPOSAL 5	PROPOSAL 6	PROPOSAL 7
KEY FEATURES:	• Eliminates last five steps • Two-level system • All bonuses/other cash awards replaced by share awards	• Eliminates last five steps • Three-level system • All bonuses/other cash awards replaced by share awards	• Discretionary merit increase • Minimum two-level system • Broad delegations of authority to agencies. • Expands GS-15 to 13 steps • Mandates evaluation and oversight	• Pay bands GM-13 and 14 • Separate pay band for GM-15 • Base pay/award pool funds for each manager • Two-tier system • No base pay or award guarantee	• Deming model • No employee ratings • No individual distinctions for base pay or awards • Emphasizes group vs. individual performance	• Minimum 10% pay differential • Two-level system	• Highly decentralized; agencies tailor own systems • Number of rating levels set by agencies • Ratings not linked to personnel actions • Mandatory employee involvement in system development/implementation
FUNDING:	• Budget neutral	• Budget neutral	• Additional funds required	• Budget neutral with possible additional funding required	• Budget neutral	• Budget neutral	• Budget neutral; agencies may redistribute funds
COVERAGE:	• Current PMRS	• Current PMRS	• Current PMRS • Agency flexibility to include others	• Current PMRS	• Current PMRS	• Supervisors only, of all grades	• All GS/GM 13-15

COMMITTEE MEMBERS	PROPOSAL 1	PROPOSAL 2	PROPOSAL 3	PROPOSAL 4	PROPOSAL 5	PROPOSAL 6	PROPOSAL 7
PRIMARY OBJECTIVES:	• Establish simple, stable, predictable system • Soften link between appraisal and payout • Minimize base pay performance payouts	• Establish simple, stable, predictable system • Move toward softening link between appraisal and payout • Minimize base pay changes • Allow meaningful performance payouts • Permit recognition of extraordinary performers	• Make meaningful performance distinctions • Provide flexibility to individual agencies • Provide responsible workforce to public • Encourage performance through meaningful incentives and recognition	• Motivate employees • Recognize accomplishments • Identify and assist "unsatisfactory"	• Foster cooperation vs. competition • Emphasize organizational goals • Promote top quality work	• Compensate managers equitably/ fairly • Improve retention and morale • Foster cooperative efforts • Provide meaningful awards • Be perceived as fair	• Assist accomplishment of agency mission • Promote excellence and teamwork • Meet individual agency needs • Encourage employee involvement/ acceptance • Provide meaningful cash incentives • Be flexible and simple
PERFORMANCE APPRAISAL:	• Two-level system	• Three-level system • 5% maximum "extraordinary" ratings	• Minimum two-level system; agencies can add more • Mandatory written objectives • Mandatory written appraisals • Discretionary subordinate/ customer input • Action taken on "unacceptable"	• Two-tier system • Work objectives developed jointly • Mandates PIP/action for "unsatisfactory"	• Objectives based on organizational goals • Feedback replaces rating • Manager/employee jointly set goals • Counseling/ performance plan for non-performer	• Two-level system • Lends itself to goal setting • No numerical quantifiers	• Number of rating levels set by agencies • Mandatory annual performance reviews • Mandatory appeal/review procedure

COMMITTEE MEMBERS	PROPOSAL 1	PROPOSAL 2	PROPOSAL 3	PROPOSAL 4	PROPOSAL 5	PROPOSAL 6	PROPOSAL 7
BASE PAY:	• 5-step pay range • Annual ECI and step increase for "at or above expected" • No increases for "below expected"	• 5-step pay range • Annual ECI and step increase for top two levels • No increases for "below expected"	• Mandatory general increase for "acceptable" • No general increase for "unacceptable" • Merit increase of up to 6% • Discretionary merit increase • Expands GM-15 to 13 steps	• Pay bands GM-13 and 14 • Separate pay band for GM-15 • Gives base pay pool funds to each manager • Number of employees in pay band determines funds allocated	• Everyone gets same general/base pay increases • Allows additional group base pay increases	• WIG and general increase for all "pass;" no WIG or general increase for "fail" • Minimum 10% pay differential • Mandatory general increase for above "unacceptable" • Agency flexibility for other increases (sup. pay differential, base pay increase, etc.)	• Mandatory general increase for above "unacceptable" • Agency flexibility for other increases (sup. pay differential, base pay increase, etc.)
AWARDS/ RECOGNITION:	• Funded from eliminated steps and all award funds • Agency head determines award pool based on agency performance • 90% distributed based on per capita • 10% distributed based on agency sub-component performance • 1/2 share award for steps 1 - 4 • Full share award for step 5	• Funded from eliminated steps and all award funds • Agency head determines award pool based on agency performance • 90% distributed based on per capita • 10% distributed based on agency sub-component performance • 1/2 share award for steps 1 - 4 • Full share award for step 5 • Additional 1/2 share for "extraordinary"	• Minimum 3% award pool • Bonus of up to 20% of base pay • Rank awards • Non-cash awards • Others (suggestion, invention, special act/service)	• Gives award pool funds to each manager • Permits special act awards	• "Work is its own reward" • Encourages frequent, public, non-monetary recognition • Same cash award for all in group • Emphasizes group efforts • Allows for individual special act awards • Allows gainsharing when possible	• Maximum 3% award pool • De-links awards from rating • Committee approves awards • Sabbatical or university program	• Agency flexibility to set award criteria • Agency flexibility for non-monetary awards (admin. leave, increased leave carry-over)

COMMITTEE MEMBERS	PROPOSAL 1	PROPOSAL 2	PROPOSAL 3	PROPOSAL 4	PROPOSAL 5	PROPOSAL 6	PROPOSAL 7
UNIQUE FEATURES:	• Assumes full FEPCA implementation • Eliminates last 5 steps • RIF based on seniority/performance "at or above expected"	Assumes full FEPCA implementation • Eliminates last 5 steps • "Below expected" for two appraisal cycles reduced one step • RIF based on seniority/performance appraisal	• Mandatory peer review of merit increase recommendation • Mandatory peer review of bonus recommendation • 360 hours annual leave carry-over	• Organizational based objectives • Links RIF retention and promotions to top 10% base pay/award recipients • 6% supervisory pay differential • Award funds can augment base pay pool • Decentralized system	• Relies on team pressure as motivation • Provides for development of agency-unique programs	• Decentralized to agency level • Mandatory 13% differential/award pool • Sabbatical or university program as award • Individual additional annual leave carry-over of up to 40 hours as award • Committee approves awards	• Highly decentralized • OPM sets framework/ develops models • OPM approves agency-tailored systems
HOW IT STRENGTHENS PAY-FOR-PERFORMANCE:	• Eliminates 5 seniority steps • Allows 10% of money to be distributed on component performance • Provides no rewards for "below expected" • Establishes agency award budget based on agency performance	• Eliminates 5 seniority steps • Allows 10% of money to be distributed on component performance • Provides no rewards for "below expected" • Establishes agency award budget based on agency performance • Recognizes extraordinary performance	• Abolishes system-driven merit increases • Predictable, reasonable incentives • Requires that all pay increases be performance-based	• Provides flexibility • Rewards contributions to the organization • Provides no base pay or award guarantee	• Doesn't necessarily strengthen pay-for-performance	• Emphasizes quality vs. quantity	• Allows agencies to tailor systems to missions • Emphasizes feedback • De-links appraisals from personnel systems • Provides meaningful rewards for high achievers

COMMITTEE MEMBERS	PROPOSAL 1	PROPOSAL 2	PROPOSAL 3	PROPOSAL 4	PROPOSAL 5	PROPOSAL 6	PROPOSAL 7
HOW IT IMPROVES PMRS:	• Provides a simplified, understandable system • Responds to criticism of current system • Eliminates disincentives • Recognizes group performance • Encourages cooperation • Maintains employee self-esteem • Provides substantially larger payouts	• Provides a simplified, understandable system • Responds to criticism of current system • Eliminates disincentives • Recognizes group performance • Encourages cooperation • Provides substantially larger payouts • Establishes strong link between pay and extraordinary performance	• Responds to criticism of current system	• Provides flexibility to agencies to design own systems	• Provides flexibility • Eliminates negative competition • Eliminates money-driven appraisal process	• Is more equitable • Removes quotas • Provides a simplified process • Facilitates goal setting	• Provides flexibility

COMMITTEE MEMBERS	PROPOSAL 8	PROPOSAL 9	PROPOSAL 10	PROPOSAL 11	PROPOSAL 12
KEY FEATURES:	• Simplified, two-level system	• Three-level system	• Two-level system based on simplified workplans	• Simplified, two-level system	• Simplified, two-level system
FUNDING:	• Additional funds required	• Additional funds required	• Additional funds required	• Additional funds required	• Budget neutral with possibility of additional funds required
COVERAGE:	• Current PMRS	• All GS employees	• Current PMRS	• Current PMRS • Agency flexibility to include others via a demonstration project	• All GS managers and supervisors
PRIMARY OBJECTIVES:	• Communicate expectations • Provide feedback • Provide a fair and honest system • Remedy current problems • Establish a simple, predictable system	• Improve performance/ appraisal link • Allow adequate financial recognition	• Simplify appraisal process • De-link bonus decisions from appraisals • Facilitate feedback • Assist "unacceptable" performer	• Create fair and effective system • Establish effective award system • Remedy current problems • Address performance problems	• Encourage high degree of job performance, esteem, and satisfaction • Respond flexibly to agency mission, culture, and needs • Be capable of easy administration and understanding • Demonstrate fairness in coverage and impact

COMMITTEE MEMBERS	PROPOSAL 8	PROPOSAL 9	PROPOSAL 10	PROPOSAL 11	PROPOSAL 12
PERFORMANCE APPRAISAL:	• Two-level system OR • No summary ratings	• Three-level system • Covers all GS employees	• Two-level system • Work objectives are major component • Action taken on "unacceptable"	• Two-level system • Mutually developed objectives • Mandates PIP for "needs improvement"	• Two-level system
BASE PAY:	• General increase and WIG for "proficient" OR • General increase and WIG for "proficient" 1st tercile; 1/2 WIG for "proficient" 2nd and 3rd tercile • OSI equivalents as awards for those recommended	• General increase and WIG for "eligible" 1st tercile • General increase and 1/2 WIG for "eligible" 2nd and 3rd tercile • No general increase for "ineligible" • OSI equivalents available for "eligible-high"	• General increase and WIG for "acceptable" 1st tercile • General increase and 1/2 WIG for "acceptable" 2nd and 3rd terciles • OSI equivalents available for "acceptable" (full OSI for 1st tercile; 1/2 for 2nd and 3rd)	• Full general increase, locality pay, and WIG equivalents for all "proficient" • No general increase or WIG for "needs improvement" • Full or half OSI equivalents available for "proficient"	• General increase and WIG for "proficient" • No general increase or WIG for "non-proficient"

COMMITTEE MEMBERS	PROPOSAL 8	PROPOSAL 9	PROPOSAL 10	PROPOSAL 11	PROPOSAL 12
AWARDS/ RECOGNITION:	• 3% award pool OR • Minimum 1.5% award pool with no ceiling • QSI equivalent • Bonuses • Rank awards • Non-cash awards (extra leave, prizes, plaques) • Others (Gainsharing)	• Maximum 3% award pool • Rank awards • QSI equivalents available for "eligible-high" • Others (on-the-spot, special act/service, suggestion)	• 1.5% award pool floor with no ceiling • QSI equivalents available for "acceptable" (full QSI for 1st tercile; 1/2 for 2nd and 3rd) • Rank awards • Non-cash awards (extra leave, prizes, plaques) • Others (gainsharing)	• Mandatory minimum 3% award pool • No min/max award limits • "Eminence" (rank) awards • Agency non-cash awards • Additional award funds for step 10 equivalents	• Remove the 1.5% lid on award pool • Award process allows for consideration of customer satisfaction, peer feedback, group achievement, and agency mission and culture-unique features
UNIQUE FEATURES:	• No PMRS employee receives fewer benefits than GS • Increased annual leave carry-over • Supervisory differential • 8% vs. 6% for promotion into PMRS • Mandatory training for rating officials • Accelerated movement as an option	• Government-wide, decentralized, local execution • 8% for supervisory promotion • Accelerated movement via QSI	• No PMRS employee receives fewer benefits than GS • Increased annual leave carry-over • 3% Supervisory differential • Accelerated movement via QSI • 8% vs. 6% for promotion into PMRS • Mandatory training for rating officials	• Review boards approve merit increases, awards, QSI equivalents • Accelerated movement via QSI • 360 hour annual leave carry-over • No PMRS employee receives fewer benefits than GS • Additional award funds for step 10 equivalents • Provides for agency demonstration projects	• Supervisory differential • Ratings de-linked from awards • Ratings de-linked from RIF

COMMITTEE MEMBERS	PROPOSAL 8	PROPOSAL 9	PROPOSAL 10	PROPOSAL 11	PROPOSAL 12
HOW IT STRENGTHENS PAY-FOR-PERFORMANCE:	• Eliminates reasons for inaccurate appraisals • Eliminates artificial/ inaccurate distributions	• Establishes more meaningful link between pay and performance • Allows managers more freedom in allocating award money	• Eliminates artificial distinctions • Focuses on feedback and actual performance • De-links bonuses from appraisals	• Allows objective performance evaluation • Separates appraisal from awards process	• Allows significant discretion in determining award amounts • Base pay increase is the only link to performance rating
HOW IT IMPROVES PMRS:	• Eliminates problems/ inequity of current system • Removes disincentives • Delinks appraisal from awards • Simplifies the system	• Strengthens process accuracy • Provides more award funds	• Simplifies process • Is less burdensome to administer • Is perceived as fair and equitable	• Removes current negative features • Provides more award funds • Provides mutually developed objectives	• Permits agency innovation/flexibility

Mrs. MORELLA. It would be appropriate, and I would like to ask that you be available to respond to questions if there are any other questions that may come from the Chair or may come from other members of the committee in a very timely fashion.

Ms. KINGSBURY. We would be happy to do that.

Mrs. MORELLA. I want to thank you very much for your report, for your testimony, for responding to the questions, Director Kingsbury.

Thank you. Thank you all. The subcommittee is adjourned.

[Whereupon, at 4:10 p.m., the subcommittee was adjourned.]

[Additional material received for the record follows:]

CRITICAL PERSONNEL MANAGEMENT ISSUES:

PERFORMANCE MANAGEMENT

prepared by the

FEDERAL SECTION

of the

INTERNATIONAL PERSONNEL

MANAGEMENT ASSOCIATION

December 1989

Critical Personnel Management Issues: Performance Management

Introduction

The International Personnel Management Association (IPMA) represents over 1,300 member organizations and 55,000 individuals, primarily human resource professionals and managers. IPMA's objectives are to encourage sound human resource management and to provide a focus for an exchange of views among practitioners and academicians throughout the United States and abroad. The Federal Section of IPMA includes among its members individuals and organizations interested in human resource management within the Federal Government.

In the Fall of 1988, the Federal Section issued a paper entitled *Critical Personnel Management Issues*. The paper was prepared in consultation with Directors of Personnel and a cross section of human resource professionals in the Federal Government. The paper articulated seven principles which are essential if the Government is to manage its workforce successfully in the next twenty years. *

The paper also identified and made specific recommendations on seven areas: compensation, classification, recruitment and employment, training, performance management, employee appeals, and research and development. This paper is one of a series of papers that will present the Federal Section's detailed views on the critical areas identified in that paper.

The Performance Management System

The Civil Service Reform Act of 1978 established for the first time a Government-wide system of performance management. The system was designed to serve as a vehicle to improve agency and individual performance through improved communications of performance expectations between employees and supervisors. A yearly work plan, consisting

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* These principles are: the merit principles are valid: the Federal worker is critical to the delivery of essential services: authority and accountability go hand-in-hand: governance must be perceived as fair: regulations must reflect sound management concepts; with knowledge, authority and responsibility, the Federal employee will do what is right; and flexibility, simplicity, delegation and deregulation are key to the continuing success of the Federal Government.

of critical elements and performance standards, was envisioned to support agency planning and accomplishment of work. Ongoing feedback from the supervisor, including a formal, end-of-the-year appraisal, would provide feedback to the employee. Management decisions on promotions, awards, training and retention were to be linked directly to the performance management process.

Prior to the Civil Service Reform Act, performance planning was not required, and largely did not occur. Employees frequently reported they had inadequate information on their supervisor's expectations, and, consequently, poor feedback on how they performed. Under the current system, performance planning is the cornerstone of a system of communicating expectations and evaluating actual performance against clearly articulated objectives. This institutionalization of a performance communications process is the most salutary effect of the CSRA performance management systems.

In reflecting on nearly ten years' experience, the Federal Section concludes that these systems have generated both notable improvements and notable problems in managing performance. The systems' most notable successes have been in the areas of performance planning and feedback. There has been less success, however, in linking the results of performance management to pay, awards, and other personnel decisions.

IPMA believes the Government must adapt a simplified performance management system. It should focus on assisting management to communicate goals and performance expectations, as well as provide regular performance feedback to employees. This system should cover both managers and employees, and replace the current Performance Management and Recognition System (PMRS) and the Performance Management System (PMS).

Performance evaluations should be a positive, honest experience. To be effective, performance feedback must be done in a positive, non-confrontational manner, building on employee accomplishments and strengths. There should be no game playing with adjective ratings, either to meet pre-determined ratings distributions, or to support particular ends which would be linked to the rating. The Federal Section believes that a simple "pass-fail" system best serves the needs of the Government. No specific dollar amount for awards should be tied to a rating. Rather, the bonus/award system should be based on the value of the employee's contributions to the agency during the rating period.

Objectives of a Revised Performance Management System

The Federal Section of the IPMA proposes that the new performance management system have the following objectives.

1. The principal focus of the system should be to communicate expectations and provide regular feedback to employees.

2. The system should support effective planning and accomplishment of work necessary to reach an agency's objectives.

3. Managers should be rated on their sound use of human resources, accomplishment of mission objectives, and other managerial responsibilities.

4. The system should be a motivator.

5. It should be a positive experience to the extent possible, focusing on what has been accomplished as well as addressing those aspects of performance that must be improved.

Fundamentals of a New Performance Appraisal System

To accomplish the stated objectives of the system, the Federal Section proposes a new performance appraisal system with the following minimum features. Agencies may choose to expand their systems beyond these requirements.

1. Performance expectations must be developed in writing, in consultation with employees. They should emphasize what each employee (or group) is expected to do to accomplish assigned tasks and meet organizational objectives. These tasks can be recurring, or can change from year to year.

2. Those performance expectations which are of greater weight must be identified as "critical" at the outset of the rating period.

3. Communication between the employee and the supervisor throughout the rating period is essential. The supervisor must be held accountable for discussing goals and objectives, and training and development needs.

4. Performance feedback should be frequent, and should focus on building on employee strengths (accomplishments) to the maximum extent possible. Improvement is possible in every case, and addressing areas for improvement is essential.

5. At the end of the agency-determined appraisal cycle, supervisors will advise employees of how well they have met the stated objectives. This session will focus on what was done as well as further improvements that can be made during the next cycle. When appropriate, a training plan should be developed to assist the employee improve his or her performance.

6. At any time, employees who are not performing one or more critical work requirements acceptably will be placed on a performance improvement plan to assist the employee improve performance to an acceptable level. If performance continues to be unacceptable, the employee will be notified in writing. With that notice, the employee:

- will receive no within-grade increase until performance becomes acceptable;
- can be reassigned, changed to a lower grade, or removed as determined by management;
- can be retained, but under closer supervisory control;
- will be placed at the bottom of the RIF retention register.

Pay

The within-grade system should be retained. All employees who meet an agency's standards for acceptable performance should be given a within-grade increase subject to current waiting period requirements.

Awards

Awards will be given based on work products or accomplishments achieved throughout the year. Additional emphasis should be placed both on meeting organizational objectives and on the effectiveness of group accomplishments. The funding for awards systems should reflect a sum which reasonably could be expected to reward employees. At a minimum, agencies should be required to devote 1.5% of salary dollars to these funds. No Government-wide maximum should be set. Larger award pools would encourage agencies to reward organizational and group accomplishments, using the gainsharing approach now being tested in a number of agencies.

Reduction in Force

Employees who fail to meet an organization's standards for acceptable performance should be placed at the bottom of the RIF retention register. In the event of a RIF, they would be released from their positions before employees who meet the standards. However, the RIF system should not become a tool to remove employees whose performance is unacceptable. By developing a simplified performance management system, agency officials will have a greater incentive to use the performance management system to address unacceptable performance.

REAUTHORIZATION OF THE PERFORMANCE MANAGEMENT AND RECOGNITION SYSTEM

THURSDAY, JULY 1, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS,
Washington, DC.

The subcommittee met, pursuant to call, at 2 p.m., in room 311, Cannon House Office Building, Hon. Eleanor Holmes Norton (chair of the subcommittee) presiding.

Members present: Representatives Norton, Byrne, and Morella.

Ms. NORTON. We will be pleased to open this hearing today. I appreciate your attendance.

The subcommittee holds the second of two hearings today on the reauthorization of the Performance Management and Recognition System, a system which provides bonuses and merit pay increases for Federal managers and supervisors. Rank-and-file employees of the Federal Government are covered under the separate performance management system. PMRS is scheduled to sunset on September 30, 1993, so the Congress must now decide whether it should be reauthorized, reformed, or eliminated.

The Office of Personnel Management has presented this subcommittee with a far-reaching reform proposal providing for the establishment of a unified performance management system covering not only management and supervisory level employees, but rank-and-file employees as well. The proposal seeks to vest Federal agencies with maximum flexibility to design performance management and recognition programs which reflect their own unique structure, culture, and needs.

The proposal also calls for employee participation throughout this process. However, it provides no detail on how this participation is to be uniformly and fairly achieved.

The proposal also includes a recommendation to deny all pay increases to Federal workers who receive unsatisfactory job ratings. The proposal is already generating controversy—though not yet as much as the current system which it is intended to succeed.

Today we will hear from the associations which represent the Federal Government's management level employees, along with unions representing rank-and-file employees.

Last week, OPM's Director, Mr. James B. King, appeared before this subcommittee and provided very helpful testimony explaining the proposal's various elements and their underlying rationale. We also heard from Ms. Nancy R. Kingsbury, Director of Federal Human Resources Management Issues at the GAO, who indicated that reform of the current pay for performance systems was clearly needed, and that the OPM proposal took significant steps in that direction.

The existing performance management and recognition systems have been widely criticized by the witnesses we will hear from today for not meeting their objectives of motivating and rewarding employees' performance. The time for change is at hand.

I would like to welcome today's witnesses, most of whom have appeared before the subcommittee previously on other matters. I look forward to hearing your comments about the current programs along with your recommendations for reform.

[The prepared statement of Hon. Eleanor Holmes Norton follows:]

PREPARED STATEMENT OF HON. ELEANOR HOLMES NORTON, A REPRESENTATIVE IN CONGRESS FROM THE DISTRICT OF COLUMBIA

Today, the Subcommittee holds the second of two hearings on the reauthorization of the Performance Management and Recognition System (PMRS), a system which provides for bonuses and merit pay increases for Federal managers and supervisors. Rank-and-file employees of the Federal government are covered under the separate Performance Management System. PMRS is scheduled to sunset on September 30, 1993, so the Congress must now decide whether it should be reauthorized, reformed, or eliminated.

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The proposal also calls for employee participation throughout this process. However, it provides no detail on how this participation is to be uniformly and fairly achieved. The proposal also includes a recommendation to deny all pay increases to federal workers who receive unsatisfactory job ratings. The proposal is already generating controversy—though not yet as much as the current system which it is intended to succeed.

Today, we will hear from the associations which represent the federal government's management level employees, along with the unions representing rank-and-file employees. Last week, OPM's director, Mr. James B. King, appeared before this Subcommittee and provided very helpful testimony explaining the proposal's various elements and their underlying rationale. We also heard from Ms. Nancy R. Kingsbury, Director of Federal Human Resources Management Issues, at the General Accounting Office, who indicated that reform of the current pay-for-performance systems was clearly needed, and that the OPM proposal took significant steps in that direction.

The existing performance management and recognition systems have been widely criticized by the witnesses we will hear from today for not meeting their objectives of motivating and rewarding employees' performance. The time for change is at hand. I would like to welcome today's witnesses, most of whom have appeared before this Subcommittee previously on other matters. I look forward to hearing your comments about the current programs along with your recommendations for reform.

Ms. NORTON. It is a real pleasure at this time to turn to the distinguished ranking member of this subcommittee.

Mrs. MORELLA. Thank you, Madam Chair.

I don't have any long formal comments, but I want to commend you again for having this second hearing which I think is so important. Testimony from the management association is going to be invaluable, and from the labor unions, invaluable in terms of refining the system, certainly as we heard at our first hearing when we heard OPM and the Director of Human Resources Management Issues of GAO testify before us.

It is interesting yet very sad and frustrating to note that the PMRS, which replaced the old merit pay system, seems to be even "more broke" than the old system, and it is dismaying to note when you look through the testimony and comments that we have had in preparation for this meeting, that managers view PMRS as dismal, phony, biased, a farce, time consuming, unfair, et cetera.

If anything emerges from these hearings, as I am sure something positive will, Madam Chair, it should be a system which will motivate Federal employees to imagine and to excel. Federal employees have to overcome many obstacles, including pay and image—just to name a few of the obstacles. They don't need to contend with a major impediment like a PMRS.

I certainly will be working with you, Madam Chair, and pledge my support to working with Federal associations also to formulate a healthy system, which encourages performance, trust, and creativity. It may be that after that first hearing and the deadline that we have, that we shouldn't hurry so and come up with another defective program.

Although it has been established that PMRS needs a thorough overhaul, it might be wise to have an extension of PMRS for a year with the provision to implement a new system incorporating suggestions by the PMRS review committee. But I certainly look forward to the enlightenment from the associations we have before us today.

Thank you, Madam Chair.

[The information referred to follows:]

PREPARED STATEMENT OF HON. CONSTANCE A. MORELLA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Madam Chair, I have no formal statement, but I would like to take this opportunity to commend you on this, the second hearing on Performance Management and Recognition System (PMRS). Testimony from management associations will be invaluable in terms of refining the system. Indeed, it is interesting—yet sad and frustrating—to note that the PMRS which replaced the old Merit Pay System is even "more broke" than the old system. It is dismaying to note that managers view PMRS as dismal, phoney, biased, a farce, time-consuming, unfair, etc, etc.

If anything emerges from these hearings, as I am sure something will, Madam Chair, it should be a system which will motivate federal employees to manage and excel. Federal employees have to overcome many obstacles, including pay and image—to name a few; they do not need to contend with a major impediment like PMRS. I pledge my support to working with you, Madam Chair, and federal associations to formulate a healthy system which encourages performance, trust and creativity. However, I caution that we should not hurry up and come up with another defective program. Though it has been established that PMRS needs a thorough overhaul, I would almost suggest an extension of PMRS for a year with a provision to implement a new system incorporation suggestions by the PMRS Review Committee.

Thank you, Madam Chair.

Ms. NORTON. Thank you, Mrs. Morella.

Ms. Byrne.

Ms. BYRNE. Madam Chair, I think that both yourself and the ranking member, Mrs. Morella, have expressed my concerns, and I am most anxious to hear from the people who will be testifying today, so I will insert anything else into the record.

Thank you.

Ms. NORTON. Thank you, Ms. Byrne.

May ask the first panel to come forward. Bruce L. Moyer, executive director of the Federal Managers Association; Helene A. Benson, president of the Professional Managers Association; and Robert S. Duncan, immediate past president of the Social Security Management Associations.

Mr. Moyer.

STATEMENT OF BRUCE L. MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION; HELENE A. BENSON, PRESIDENT, PROFESSIONAL MANAGERS ASSOCIATION; AND ROBERT S. DUNCAN, IMMEDIATE PAST PRESIDENT, SOCIAL SECURITY MANAGEMENT ASSOCIATIONS

Mr. MOYER. Thank you, Madam Chair, and members of the subcommittee.

I am Bruce Moyer, the executive director of the Federal Managers Association. We would like to thank you very much for holding today's hearing and the opportunity to share the thoughts of FMA and our colleague management associations on the reform of the Government's performance management systems.

As you know, FMA represents the interests of more than 200,000 managers and supervisors throughout the Federal Government. They have a twofold interest in the performance management reform systems operating throughout the Government; twofold in the sense that they both are responsible for making the system work, as well as the fact that they are covered by performance management systems including both PMRS, PARS, and PMS.

With respect to PMRS, our members very strongly believe that PMRS over this last decade has been a flawed and a failed system. The troubles with regard to the system have been significantly documented by GAO and other authorities in the past, and I would not take the time now to delineate that list other than to certainly indicate that there is extreme concern, even cynicism by those operating under the system that deals with the overwhelming amount of administration, paperwork, and detail that interferes with the foremost aim of any performance feedback system, and that is to provide timely and accurate feedback on performance, to let an employee know as effectively and as quickly as possible how am I doing, how well am I doing on the job.

PMRS has also been troubled by the impact of nonperformance-related factors, primarily funding limitations, and despite prohibitions in the law, the continued existence of forced distributions.

These problems, we believe, and the depth of dissatisfaction that they have engendered warrant the Congress to consider very seriously refraining from reauthorizing PMRS in its current form when it is scheduled to expire on September 30, 1993.

We would envision there would be a transition period that would occur in the ensuing year for agencies to move in collaboration with OPM to adapt and develop their own systems that are in conformance with their own mission, their own culture, and needs.

The key to success overall, we believe, is a process that gives all employees, managers and rank and file, a sense of ownership over the system, and not subservience to it. Positive feedback and reinforcement of acceptable performance in a timely manner does more, we believe, than any "program" that we could establish.

There is no right answer or solution in this area. There is no one size that fits all. In fact, no matter what the Congress does to come up with a general framework for change and reform, the bottom line, we believe, ultimately depends upon agency initiative and innovation, managerial commitment and responsibility and accountability, and ultimately, employee involvement and trust.

At the core of this issue we are talking about human nature and the uniqueness and contribution of every individual in the workplace. All effort ought to be focused on the question of how to maximize effective feedback that motivates employees to feel proud about what they do and proud about their involvement in their agency or organization.

The proposal that Director King brought before your subcommittee last week is one that the Federal Managers Association generally supports. We believe that it represents a bold initiative for change that will restore credibility and effectiveness to performance management throughout the Federal Government. In fact, in many respects it contains recommendations that FMA has supported since 1991.

We also support OPM in its desire to maintain the current linkage between within grade pay advancement and the median performance expectations. We also support OPM's proposal to require employees to meet performance expectations in order to receive national comparability and locality pay increases.

This is similar to the requirement already within PMRS. We believe very strongly, Madam Chair, that public service is a public trust, and any suggestion that the Federal Government tolerates performance that falls below expectations violates that trust, violates and impairs the credibility of all dedicated and satisfactorily performing Federal workers.

In the interests of time I will not get into the detail associated with a number of recommendations that we have laid out in our testimony that deal with additional changes that we would hope the subcommittee would consider, that do not appear to be within the OPM preliminary proposal, that deal with fractional within-grade increases on an annual basis, dealing with step 10 bonuses, mandatory awards funding, and the matter of delinking performance ratings and retention standing.

I would point out that in addition we have a strong desire for the retention of supervisor and manager recognition, in the sense that PMRS, for all its faults, at least provided a separate system for special recognition of those additional responsibilities that managers assume, frequently without additional pay.

If PMRS is abolished, the loss of that reward distinction ought to be offset in other respects, for example, through the use of supervisory differentials in pay or through awards similar to those received by members of the Senior Executive Service or in some way related to team recognition when that is possible, depending upon the agency and the manner of doing its work.

In two other areas involving employee involvement and the role of OPM, I would just like to offer a comment or two. An underlying principle of the OPM proposal concerns employee involvement and giving employees and their representatives a major role in the design and operation of agency programs.

We, too, Madam Chair, would like to see more detail about this approach. We support the aim generally, and would certainly desire to assure that employee involvement includes management associations like FMA and their chapters, of which there are more than 150 throughout more than 30 different departments and agencies.

Finally, with regard to the role of OPM, we would hope very much that as agency decentralization occurs and agencies have a greater ability to flexibly design their own programs, that OPM should have a vital role in that process, one that collaboratively offers its leadership and technical assistance to agencies, but also one that continues to assure that fairness and adherence to merit system principles are embodied in all agency programs.

We believe that OPM should be required annually to report back to you and the Congress on the content and variety of agency plans, on the amount of innovation that is going on throughout the Government, and employee satisfaction with such plans. We would hope that the unions and the management associations would be very much involved in that process.

Now, in conclusion, Madam Chair, we believe now is the ideal time to move ahead and reform the Government's overall performance management system. Federal managers are supportive of that goal. So is the administration. We believe OPM's preliminary proposal contains considerable merit. We look forward to providing to your subcommittee our thoughts on that package when it arrives in the very near future.

Thank you very much for this opportunity.

[The prepared statement of Mr. Moyer follows:]

PREPARED STATEMENT OF BRUCE L. MOYER, EXECUTIVE DIRECTOR, FEDERAL MANAGERS ASSOCIATION

Madam Chair and Members of the Subcommittee: Thank you for holding today's hearing and for the opportunity to share FMA's thoughts on reform of the Government's performance management systems.

As you know, FMA represents the interests of more than 200,000 managers and supervisors employed through the Federal Government. Our members are employed in more than thirty Federal departments and agencies and are found in the General Schedule, Federal Wage System, and SES. They have a twofold interest in performance management reform: they are the primary employees responsible for making performance management systems work; and they themselves are covered under a variety of performance management systems, including PMRS, PARS and PMS.

PMRS: A FLAWED AND FAILED SYSTEM

Our members have been troubled by the flawed implementation of PMRS and merit pay programs in the Federal Government over the last decade. They have grown increasingly doubtful that improved performance will necessarily result in higher ratings or greater rewards. From their perspective, significant problems in PMRS and other performance management systems have involved:

An overwhelming amount of administration, paperwork and detail that interferes with and obscures the foremost aim: providing timely and accurate performance feedback;

Interference with impartial ratings by nonperformance-related factors (primarily funding limitations and forced distributions);

Multiple and incompatible users of appraisal systems, particularly through linkage to awards and retention standing;

Subjectivity and inadequate measures of performance;

Poorly stated performance standards;

Incompatibility of current systems with TQM practices and inadequate recognition of group performance;

Ineligibility of Step 10 incumbents to receive merit increases;

Insufficient agency flexibility and system decentralization; and

Rating inflation to respond to pay and staffing imbalances.

The magnitude of these problems and the depth of dissatisfaction with PMRS causes FMA to recommend that Congress refrain from reauthorizing PMRS in its current form when it is scheduled to expire on September 30, 1993.

FMA'S GUIDING PRINCIPLES FOR REFORM

The Federal Managers Association has been intensively involved in promoting performance management reform over the past several years. In 1991 we formulated principles for a new approach to performance management that:

Encourages the highest degree of job performance, esteem and satisfaction;

Responds flexibly to agency mission, culture and needs;

Is capable of easy administration and understanding; and

Demonstrates fairness in coverage and impact.

We were pleased that these principles and a number of our specific proposals for change were adopted by the PMRS Review Committee in 1992. Since that time we have worked with OPM and the Congress to promote change that enhances individual and organizational accountability and effectiveness.

The key to success, we believe, is to give a sense of "ownership" to managers that encourages recognition of subordinates and team members. Positive feedback and reinforcement of acceptable performance, in a timely manner, will do more than all the "programs" we institute.

OPM'S PROPOSAL FOR PERFORMANCE MANAGEMENT REFORM

We support OPM Director King's efforts to achieve performance management reform, as part of the Administration's ongoing commitment to reinvent government. The current Federal personnel system is too rigid and should be streamlined. Many restrictive laws and regulations should be eliminated that will encourage more managerial flexibility and employee involvement in making staffing, pay and promotion decisions. This is particularly true of the Government's performance management systems.

We believe OPM's proposal for performance management reform represents a bold initiative for change that will restore credibility and effectiveness to performance management throughout the Federal Government. In many respects, OPM's proposal contains recommendations FMA has supported since 1991.

There is no "right" answer or solution in this difficult and complex area. Effective reform begins with legislative change, but ultimately depends upon agency initiative and innovation, managerial commitment and responsibility, and employee involvement and trust. At the core of this issue, we are talking about human nature and the uniqueness and contribution of individuals in the workplace. All effort ought to be focused on ways to maximize effective feedback that motivates employees to feel proud about what they do and to feel involved in their agencies and organizations.

We believe OPM's reform proposal will provide marked improvement over the current performance management framework by:

Abolishing PMRS and generally unifying the Government's performance management systems;

Providing for agency flexibility to simplify the performance management process;

Allowing for as few as two performance rating levels, permitting supervisors to make a single determination whether their employees meet the overall expectations for performance in their jobs;

Delinking performance feedback systems from awards determinations; and

Assuring greater employee involvement in developing the performance expectations for their jobs.

In addition, we support OPM in its desire to maintain the current linkage between within-grade pay advancement and the meeting of performance expectations. We also support OPM's proposal to require employees to meet performance expectations in order to receive national comparability and locality pay increases. This is similar to the requirement already within PMRS. Public service is a public trust. Any suggestion that the Federal Government tolerates performance that falls below expectations violates that trust and the credibility of all dedicated and performing Federal workers.

ADDITIONAL FMA RECOMMENDATIONS FOR REFORM

In several areas, we recommend additional change and improvement:

First, we favor the inclusion of several positive aspects of PMRS and certain recommendations previously advanced by the PMRS Review Committee. These involve fractional within-grade increases, step-ten bonuses, supervisor/manager recognition, mandatory awards funding, and delinking performance ratings and retention standing. Let me explain:

Fractional Within-Grade Increases. Providing the respective fractional amount of a within-grade increase each year to eligible employees who have performed at an acceptable level of competence merits consideration. This is preferable to requiring employees to wait two or three years for a within-grade increase because it more closely ties the timing of positive performance to pay increases.

Step-Ten Bonuses. We support recognition of the positive performance of employees who have reached the step-ten level of their grade and currently are ineligible for within-grade increases. There is a significant need to find ways to motivate and reward these employees who have "maxed out" in their grade. We recommend non-base pay bonuses, equal to one-half of a within-grade increase, for such employees who have satisfactorily met performance expectations.

Supervisor/Manager Recognition. We need to create ways to provide special recognition of managers and supervisors that inspire and motivate them to excel. Current classification and pay systems do not necessarily assure that supervisors are at higher pay levels than those they supervise. In the face of such inequity, supervisors and managers increasingly question whether their compensation is worth the growing complexity and responsibility of their jobs. PMRS, for all its faults, at least provided a separate system for special recognition of those additional responsibilities that managers assume, frequently without additional pay. If PMRS is abolished, the loss of that reward distinction ought to be offset in other respects, for example through the use of supervisory pay differentials, or through awards similar to those received by members of the Senior Executive Service.

Awards Funding. Agencies should be permitted to continue to recognize superior performance through awards programs that are funded from agency salary and expense accounts. Awards should continuously aim to promote employee development, encouraging and motivating employees to become more competent, self-assured, and proud about their contribution to their organizations.

We believe that at least 1.5% of payroll should be made available for such awards programs. In these times of declining resources, this may prove difficult. Agencies should have the discretion to use salary and expense funds above a minimum percentage of payroll for awards and bonus programs.

Delinking Performance Appraisal from Retention Standing. We favor removing the current linkage between performance ratings and an employee's retention standing for RIF purposes. While there is understandable desire in the name of effective public administration to support the preferential retention of high performers in a reduction-in-force, too often we have witnessed the abuse of the rating process prior to the announcement of a RIF in order to affect retention standing. Two-level rating systems will minimize this dynamic, although not entirely.

EMPLOYEE INVOLVEMENT THROUGH MANAGEMENT ASSOCIATIONS

An underlying principle of the OPM proposal concerns employee involvement and giving employees and their representatives a major role in the design and operation of agency programs. We support that aim and its inclusion of management associations like FMA and our chapters. Although FMA is not a union and is not a representative for bargaining unit purposes, our more than 150 FMA chapters represent a broad range of supervisory and managerial employees throughout the Government. Legislation ought to specifically ensure that they are involved in their agencies' development of performance evaluation programs, award programs and other plans that affect their members, both in administering the program as well as its coverage of them.

THE CHANGING ROLE OF OPM

If agencies acquire greater authority and flexibility to administer their own performance management programs, the role of OPM will need to change from strictly that of an oversight agent to one that collaboratively offers leadership and assistance to agencies. At the same time, OPM will need to establish central policy guidelines and principles for effective program design, implementation and assessment.

OPM should continue to assure that fairness and adherence to merit system principles is embodied in all agency programs. This should include effective involvement by employees, employee organizations and management associations in the establishment and implementation of agency plans. OPM should also give high priority to training supervisors and managers in helping poor performers improve their performance.

We believe OPM should be required to annually report to Congress on the content and variety of agency plans, innovation and employee satisfaction. Employee organizations and management associations should also be invited to participate in this review process.

CONCLUSION

We believe that now is an ideal time to move ahead and reform the Government's overall performance management system. Federal managers are supportive of that goal, and so is the Administration. OPM's preliminary proposal contains considerable merit, and we look forward to providing to the Subcommittee our thoughts on OPM's legislative package in the coming weeks.

Thank you. I would be pleased to answer any questions the Subcommittee may have.

Ms. NORTON. Thank you very much, Mr. Moyer.

Could we hear next from Ms. Benson.

Ms. BENSON. Chairwoman Norton and members of the subcommittee, thank you for the opportunity to discuss the PMRS and OPM's new proposed unified performance management system. I am going to summarize my testimony and ask that the complete testimony and all the attachments, which includes PMA's survey of its members on PMRS, be included in the record in full.

PMRS is the only association representing exclusively Federal GM–13 to 15 PMRS managers, and I am a full-time GM manager.

PMRS is, in former Congresswoman Mary Rose Oakar's words, a disincentive millstone on the back of the Federal Government. The dishonesty of appraisals has led to a lack of respect for the appraisal system, cynicism, and lowered morale.

I would like to point out that the PMRS review committee which all of us served on, all of the management associations, which was established by Public Law 102–22, included personnel officers, line managers, SES and GM employees, and representatives of these three managers associations. The PMRS review committee had 12 meetings over several months, most open all day, open to the public, several subcommittee meetings, heard from many individuals, and studied reams of materials between meetings. We expected OPM's proposals to reflect more closely the proposals of the PMRS review committee.

I would like to now go through the principal reactions to OPM's proposed Unified Performance Management System.

First, on agency flexibility, OPM is proposing a performance management system that seems to provide virtually total flexibility. It seems to run short on accountability.

To understand the ill effects of providing for such flexibility without accountability, you should look to our existing awards program. It seems to us that if the Government is spending $650 million on bonuses, not to mention the cost of administering the program, it has a responsibility to make sure that these bonuses are being awarded fairly and equitably and that the Government is getting something positive for this expenditure.

I am here to tell you, they are not and it is not. Our surveys and all the surveys by Government agencies and the recent quotes from employees in the newspapers, which all of us have read, are consistent. By and large, any connection between the actual performance and the bonuses and ratings is apparently purely coincidental. Agriculture Secretary Mike Espy's widely quoted comments that, "bonuses and awards have more to do with cronyism and elitism than merit," squares with our findings.

In 1989 I reported that 72 percent of those surveyed believed ratings were influenced by favoritism. Eighty-six percent stated quotas and forced distributions, which are illegal under PMRS, were common. Three quarters believe that PMRS is characterized by pressure to rate in a prescribed manner by higher level management.

We realize no system can be designed which can be totally free of complaints. However, in my more than 25 years of Government experience, there has never been any system of any kind that has elicited this volume of complaint. Where there is this much smoke, there is a lot of fire.

The feedback I have received from PMRS managers recently is consistent with our earlier survey results. In light of this, we are very disappointed that OPM would recommend that agencies—and that means the executives at the agencies—be given virtually total flexibility to design performance systems with virtually no oversight and apparently no minimum standard requirements applicable to all.

Who does OPM think was responsible for the mess of the present system? Who is it that is responsible for the widespread complaints of unfair awards? These very same executives. And now OPM wants to give these same executives a virtually free hand?

It would be no surprise to us to hear that agencies are thrilled with OPM's proposals. On the other hand, the GM employees—and remember, we are the rated employees in the system—the GM employees with whom I have discussed OPM's proposal since I was shown it earlier this month reacted with statements such as, "There is room for a lot of mischief here, no accountability, no built-in safeguards for equity and fairness."

How does this proposal correct any of the complaints about PMRS? While PMA is not opposed to allowing for some flexibility—in fact, we support the principle—we do not support any system that doesn't involve OPM oversight and approval and built-in safeguards and evaluation procedures to assure fair and equitable treatment of all employees.

To say that the grievance procedure is a safeguard, as OPM did in the last hearing, is not to live in the real world. Employees, especially managers and supervisors, know that generally filing a grievance is to kiss your career goodbye.

Second, on base pay increases, we maintain that it is essential to continue annual base pay increases for GM managers in return for successful performance. In designing a new system, it is important to include features from the existing system which employees value.

One of the few popular features of PMRS is the principle that successful managers advance through the pay range of their grade each year. We would like to retain this feature and improve it.

Remember, many of the GM managers have been financially disadvantaged vis-a-vis their GS counterparts. Until the law was changed in 1989, GM's who are fully successful took 3 years to get from one step to the next in the second tercile—that was one-third each year—while their GS counterparts took 2 years.

Further, there is a statutory ceiling on PMRS's bonus pools while there is none on the GS cash awards.

Moreover, the GS employees can advance faster in the early steps of a grade through quality step increases. So, as a matter of fact, when they talk about how fast GM's can advance through the grades, GS can advance faster through quality step increases.

Now, next I would like to discuss a rule which needs changing. There is a rule now in existence which we believe should be abolished. The citation for that is—and this isn't in my testimony—is 5 CFR 430.206(c) for GS and 5 CFR 430.407(c) for PMRS. And I have a copy of the rule which I would like to be made part of the record.

[The information referred to follows:]

§430.206 Ratings.

* * * * * * *

(c) Higher level review. Ratings of record and performance-based personnel actions shall be reviewed and approved by a person(s) at a higher level in the organization than that of the appraising official. Ratings of record may not be communicated to employees prior to approval by the final reviewer. This does not preclude communication about appraisal of performance between a supervisor and an employee prior to the determination of the rating of record. Ratings of record must be approved by the official with the responsibility for managing the performance awards budget within the agency. Agencies may describe exceptions to higher level approval of ratings of record and performance-based personnel actions in their Performance Management Plans.

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§430.407 Ratings.

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(c) Higher level review. Ratings of record and performance-based personnel actions shall be reviewed and approved by a person(s) at a higher level in the organization than the appraising official. Ratings of record may not be communicated to employees prior to approval by the final reviewer. This does not preclude communication about appraisal of performance between a supervisor and an employee prior to the determination of the rating of record. Ratings of record must be approved by the official with the responsibility for managing the performance awards budget within the agency.

Ms. BENSON. This rule requires supervisors to obtain the concurrence of upper management before they are allowed to give the employee a rating. This rule allows upper management to secretly change the rating the supervisor believes the employee deserves.

It is this rule which has put so much power inappropriately in the hands of agency executives and may account for many of the complaints surrounding the ratings and awards. This principle violates principles of accountability and employee empowerment.

Remember, all year long supervisors are supposed to be giving their employees feedback and are supposed to conduct semiannual reviews with employees. However, when it comes time to rate them, the supervisor, the rating official, must either get an OK for the rating from upper management or revise that supervisor's rating to that dictated by upper management.

We recommend this practice, instead of being prescribed, be prohibited. We recommend a system like the past practice under which the supervisor gave the employee the rating and the appraisal was signed by both the supervisor and the employee and, if the employee desired, contained the employee's comments, and only after that does the reviewing official receive the appraisal and either concur with the rating or change the rating. That was a much more honest and open system.

This simple change would go a long way toward solving a lot of complaints about PMRS and the complaints now developing under the system for GS employees. The system of rating GS employees has gotten to be very much like the PMRS system with all its attendant problems.

Fourth, employee participation: We believe strongly in participation by the managers and representatives of the managers association in, one, the design of the system under which they will be evaluated; and, two, in the implementation, that is, by peer review panels, to decide on bonuses and awards; and three, we believe the participation of the rated managers in setting the performance standards is vital.

OPM is very vague on how the participation of the grade 13 to 15 managers is to be ensured in any of these areas. Remember, mid-level managers are not covered by collective bargaining.

We would also like to remind you that PMRS requires that the rated managers participate in developing their performance standards. We agree with that requirement. This is yet another requirement honored in the breach. In PMA's survey, 62 percent responded that there was not sufficient participation in developing their performance standards.

I have been a GM manager for several years now and I have never once participated in the development of my standards.

Sixth, PMA's basic recommended—oh, wait. I forgot something.

Fifth, the principles and features of OPM's proposal. We would like to point out that most of the principles and features outlined by OPM in its May 27 working draft are allowed or required, although sometimes ignored, by the present performance management systems, but the OPM draft provide no safeguards or specificity.

Sixth, we would like to summarize the basic features which we believe should be required by law to be part of any performance appraisal system for grade 13 to 15 managers. These features remedy the complaints of the present system. Our detailed recommendation is attached to our testimony so this is just a brief summary.

One, use a two-level rating system. It took us awhile to come up with a two-level rating system. It was not immediately attractive to us. However, when we examined all the alternatives, we found that the two-level rating system is the only one which took all the complaints about PMRS into account. You might note that the two-level rating system was unanimously recommended by the PMRS review committee.

Two, separate the performance rating/appraisal process from the awards process. Awards are still based on performance but not on the appraisal itself.

Three, involve those to be rated in the design and implementation of the system through their management associations, if there are members in the agency. This includes establishment of so-called peer review committees or performance review boards to decide on awards, as was provided for in Congressman Gary Ackerman's bill in 1989.

Four, increase base pay annually for grades 13 to 15 managers who are performing successfully.

Finally, we would like to point out that the Pay-for-Performance Labor-Management Committee, in its report of November 1991 stated, "There is no empirical evidence that merit pay programs are effective."

We would also like to remind you that the Federal Government's track record over the last 15 years in designing and implementing performance management systems is dismal. It would be a shame if we wind up with another performance management system that fails.

Therefore, we recommend, so far as GM employees are concerned, that the problems of PMRS be corrected as outlined above and in accordance with the recommendations of the PMRS review committee. When the problems are corrected, OPM might then be in a position to recommend a Government-wide system.

However, we are very wary about dismantling the present system at this time for an entirely new, untried system for the entire work force, especially one such as this OPM proposal that does not seem to take into account the problems of the present systems. You will really be opening a Pandora's box if you impose an ill-thought-out system on the entire workforce. PMA agrees with the PMRS review committee's recommendation for an incremental approach to making the PMRS a credible, effective, and responsive system rather than the creation of an entirely new system.

We also agree with the similar recommendation of the Pay-for-Performance Labor-Management Committee that, rather than replacing the current system, "the Federal Government may well be served by a renewed focus on, and dedication to, improved management of the current system, avoiding the trauma and cost of a major system change."

We will be happy to work with you and your staff and OPM on these matters.

[The prepared statement of Ms. Benson follows:]

PREPARED STATEMENT OF HELENE A. BENSON, PRESIDENT, PROFESSIONAL MANAGERS ASSOCIATION

Chairwoman Norton and members of the Subcommittee, thank you for the opportunity to discuss the Performance Management and Recognition System (PMRS) and OPM's proposed Unified Performance Management System. I am Helene Benson, National President of the Professional Managers Association, which is the only association representing exclusively Federal GM–13 to 15 PMRS managers. I am a full-time GM manager.

PMRS was enacted in 1984 to replace the even more hated Merit Pay System, which was established under the Civil Service Reform Act of 1978. PMA was instrumental in seeing that the Merit Pay System was replaced. PMRS has been extended twice with minor amendments. I can tell you today the same thing I told this Subcommittee on July 18, 1989—"PMRS is"—in former Congresswoman Mary Rose Oakar's words describing the Merit Pay System it replaced—". . . a disincentive millstone on the back of the Federal Government." The dishonesty of appraisals has led to lack of respect for the appraisal system, cynicism, and lowered morale. We want a fair, honest appraisal system, with no game playing.

I have attached to today's testimony PMA's proposal for reforming PMRS, which takes into account all of the complaints regarding PMRS. I am also attaching my testimony before this Subcommittee four years ago as well as the statistical results of PMA's survey and a compilation PMA made of specific comments submitted in our survey, and our public statements. We ask that all of this material be entered into your record of this hearing.

We would also request that the PMRS Review Committee's Report of November 5, 1991, "Advancing Managerial Excellence," be entered into the record. I would like to note that the PMRS Review Committee, which was established by PL 102–22, included personnel officers, line managers, selected SES and GM employees, and representatives of the three managers associations representing GM managers. The PMRS Review Committee has 12 meetings over several months, most all day, open to the public, several subcommittee meetings, heard from many individuals, and studied reams of material between meetings. PMA expected OPM's proposals to reflect more closely the proposals of the PMRS Review Committee.

I would like to now go through our principal reactions to OPM's proposed Unified Performance Management System.

AGENCY FLEXIBILITY

First, OPM is proposing a performance management system that seems to provide virtually total flexibility, yet is short on accountability. To understand the ill effects of providing for such flexibility without accountability, you should look to our existing awards program. It seems to us that if the Government is spending $650 million on bonuses, not to mention the costs of administering the program, it has a responsibility to make sure that those bonuses are being awarded fairly and equitably and that the Government is getting something positive for this expenditure. I am here to tell you that, despite a lot of talk about accountability, they are not and it is not.

Our survey and all the surveys by Government agencies and the recent quotes from employees in the newspapers, which we have all read, are consistent. By and large, any connection between actual performance and the bonuses (and ratings) is apparently purely coincidental. Agriculture Secretary Mike Espy's widely quoted comments that "bonuses and awards have more to do with cronyism and elitism than merit . . ." squares with our findings.

In 1989 I reported that 72 percent of those surveyed believed ratings were influenced by favoritism; 86 percent stated quotas and forced distributions (which are illegal under PMRS) were common; three quarters believed that PMRS is characterized by pressure to rate in a prescribed manner by higher level management. We realize that no system can be designed which will be totally free of complaints. However, in my more than 25 years of Government experience there has never been any system of any kind that has elicited this volume of complaint. Where there is this much smoke, there is a lot of fire.

The feed-back I have received from PMRS managers recently is consistent with our earlier survey results.

In light of this, we are disappointed that OPM would recommend that agencies (and that means the executives of the agencies) be given virtually total flexibility to design performance systems, with virtually no oversight and apparently no minimum standard requirements applicable to all. Who does OPM think was responsible for the mess of the present system? Who is it that is responsible for the widespread complaints of unfair awards? Those very same executives. Everyone acknowledges that PMRS has been a dismal failure and we all know what the complaints are. There is silence, though, on whose fault it is that PMRS has been a failure and that awards and ratings have not been based on merit. Who has been giving these unfair ratings and bonuses? The executives of the agencies. And now OPM wants to give these same executives a virtually free hand?

We are amazed that, at a time when the entire government is undergoing a National Performance Review led by the Vice President, which would certainly indicate that a lot of changes are needed, a proposal is made to vest power in the very people who all along could have, but have not, made or recommended changes this Administration recognizes are needed. There is a lot of talk that there are too many mid-level managers. If that is the case, who is responsible for appointing too many mid-level managers? In many offices mid-level managers have protested, to no avail, when agency executives have provided for unnecessary mid-level positions and levels. It would be no surprise to us to hear that agencies are thrilled with OPM's proposals.

On the other hand, the GM employees (and, remember, we are the rated EMPLOYEES in this system) with whom I have discussed OPM's proposal reacted with statements such as, "There's room for a lot of mischief here"; "no accountability"; "no built-in safeguards for equity and fairness"; "how does this proposal correct any of the complaints about PMRS?"

While PMA is not opposed to allowing for some agency flexibility—in fact, we support the principle—PMA does not support any system that does not involve OPM oversight and approval and built-in safeguards and evaluation procedures to assure fair and equitable treatment of all employees.

To say that the grievance procedure is a safeguard, as OPM did last week at the hearing, is not to live in the real world. Employees, especially managers and supervisors, know that generally filing a grievance is to kiss your career good-bye. There are many, many dreadful situations, where employees are grossly mistreated, that never result in a grievance.

BASE PAY INCREASES

Second, we maintain that it is essential to continue annual base pay increases for GM managers in return for successful performance. We agree with the principle enunciated in the National Research Council of the National Academy of Sciences report evaluating PMRS that options for developing effective pay for performance systems are dependent on benefits already derived from the status quo—the "where you go depends on where you are" factor.

In designing a new system it is important to include features from the existing system which employees value. One of the few popular features of PMRS is the principle that successful managers advance through the pay range of their grade each year. We would like to retain this feature and improve it.

Under PMRS, in the second tercile, it is a half a step for the fully successful (whole step for those rated above fully successful) and in the third tercile it is one-third of a step for fully successful, one-half for those rated one step above fully successful, and a full step for outstanding.

We would prefer a full step increase each year for all successful managers, or, as a second choice, a half step in both the second and third terciles (as the PMRS Review Committee recommended). Our members believe that a yearly base pay increase until the employee reaches the top of the grade pay range is consistent with the principle of tying pay to performance. We think this is even more vital now that bonuses are expected to be abolished for the next several years.

Remember, many of the GM managers had been financially disadvantaged vis a vis their GS counterparts. Until the law was changed in 1989, GM's who were fully successful took 3 years to get from one step to the next in the second tercile (⅓ each year) while their GS counterparts advanced in 2 years. Further, there is a statutory ceiling (1.5 percent of payroll) on PMRS bonus pools while there has been no statutory ceiling on the GS cash awards. Moreover, the GS employees can advance faster in the early steps of a grade through quality step increases (QSI's).

If GM employees cannot advance each year through the grade range, we see no reason whatsoever (other than to save the Government money at the expense of employees) for anyone not to be at a fixed step. OPM has recommended converting PMRS employees to a Government-wide system where they would not advance each year through the grade range (i.e., in the second and third terciles where there is now a waiting period for GS employees of 2 and 3 years, respectively). OPM has proposed to convert the GM in such a way as to avert what OPM claims would be an $80 million conversion cost of slotting PMRS employees back into a fixed step pay schedule. If GM employees do not retain the ability to advance through the steps yearly, we submit that it would be most unfair not to allow the GM employees, after receiving their yearly increase in the last year of PMRS, to then move to the next highest fixed step in the pay range, as present law would have required.

Moreover, we see no reason for OPM's proposal to change the GS pay administration to give employees a fixed percentage increase on promotion instead of the present requirement to provide a two-step pay increase and if that amount falls between the steps to set pay at the next higher step. We are not aware of any complaints about this requirement. This proposed change would still not result in a uniform percentage of pay increase at promotion. Those promoted from a low step of one grade to the next grade would still be receiving raises higher than the 6 or 7 percent that OPM plans to specify. For example, a promotion from step 2 of a grade 14 to step 1 of a grade 15 is an increase of $8,094, an increase close to 14 percent. A 6 percent increase would be $3,510.

The excuse given for this proposal is to "correct existing inequities in GS pay administration which causes the Government to incur unnecessary costs." I cannot tell you how tired we are of equity being given as a justification only when the Government is going to save money.

It's more likely that the reason for this proposal is to eliminate the constraint of setting pay at the 10 fixed steps now that OPM is proposing to put the PMRS managers in the system, thereby saving the estimated cost of $80 million to convert the PMRS managers into a fixed-step pay schedule.

EMPLOYEE PARTICIPATION

Third, we believe strongly in participation by the managers (and representatives of the managers associations) in (1) the design of the system under which they will be evaluated and (2) in the implementation (i.e., by peer review panels to decide on bonuses and awards) and (3) we believe that the participation of the rated managers in setting their performance standards is vital.

OPM's proposal is very vague on how the participation of the Grade 13–15 managers is to be ensured in any of these areas. Remember, mid-level managers are not covered by collective bargaining.

We would also like to remind you that PMRS requires that the rated managers participate in developing their performance standards. We agree with that requirement. This is yet another requirement honored in the breach. In PMA's survey 62 percent responded that there was not sufficient participation in developing their performance standards.

PRINCIPLES AND FEATURES OF OPM PROPOSAL

Fourth, we would like to point out that most of the principles and features outlined by OPM in its May 27 Working Draft are allowed or required (though sometimes ignored) by the present performance management systems, but the OPM draft provides no safeguards or specificity.

RULE WHICH NEEDS CHANGING

Fifth, there is a rule now in existence which we believe should be abolish. The rule requires supervisors to obtain the concurrence of upper management before they are allowed to give the employee a rating. This rule allows upper management to secretly change the rating the supervisor believes the employee deserves. It is this rule which has put so much power, inappropriately, in the hands of agency executives and may account for many of the complaints surrounding the ratings and awards. This rule violates principles of accountability and employee empowerment. Remember, all year long supervisors are supposed to be giving their employees feedback and are supposed to conduct semi-annual reviews with employees. However, when it comes time to rate them, the supervisor (the rating official) must get either an ok for the rating from upper management or revise the rating to that dictated by upper management. We recommend that this practice, instead of being prescribed, be prohibited.

We recommend a return to the past practice under which a supervisor gave the employee the rating and the appraisal was signed by both the supervisor and the employee and, if the employee desired, contained the employee comments, and only after that did the reviewing official receive the appraisal and either concur with the rating or change the rating. That was a much more honest and open system. In fact, this simple change would go a long way in solving a lot of the complaints about PMRS and the complaints that are developing under the system for GS employees. (The system of rating the GS employees has gotten to be very much like the PMRS system, with all its attendant problems.)

PMA'S RECOMMENDED BASIC FEATURES

Sixth, we would like to summarize the basic features which we believe should be required by law to be part of any performance appraisal system for Grade 13 to 15 managers. These features remedy the complaints of the present system. Our detailed recommendation is attached.

1. Use a 2-level rating system. It took us awhile to come up with the 2-level rating system proposal. It was not immediately attractive to us. However, when we examined all the alternatives, we found that the 2-level rating system is the only one which took all the complaints about PMRS into account. You might note that the 2-level rating system was unanimously recommended by the PMRS Review Committee.

2. Separate the performance rating/appraisal process from the awards process. Awards are still based on performance, but not on the appraisal itself.

3. Involve those to be rated in the design and implementation of the system through their management associations if there are members in the agency. This includes establishment of so-called peer review committees or performance review boards to decide on awards, as the PMRS Review Committee recommended and as was provided for in Congressman Gary Ackerman's bill, HR 2886, in 1989. Also, employees must participate in the development of their performance standards.

4. Increase base pay annually for Grades 13–15 managers who are performing successfully.

CONCLUSION

Finally, we would like to point out that the Pay-for-Performance Labor-Management Committee in its report of November 1991, stated, ". . . there is no empirical evidence that merit pay programs are effective." We would also like to remind you that the Federal Government's track record over the last 15 years in designing and implementing performance management systems is dismal. It would be a shame if we wind up with another performance management system that fails.

Therefore, we recommend, so far as GM employees are concerned, that the problems of PMRS be corrected as outlined above and in accordance with the recommendations of the PMRS Review Committee. When the problems are corrected, OPM might then be in a position to consider recommending a Government-wide system. However, we are wary about dismantling the present system at this time for an entirely new, untried system for the entire workforce, especially one such as this OPM proposal that does not seem to take into account the problems of the present systems. You will be really opening a Pandora's box if you impose an ill-thought out system on the entire workforce.

PMA agrees with the PMRS Review Committee's recommendation for an incremental approach to making the PMRS a credible, effective, and responsive system, rather than the creation of an entirely new system. We also agree with the similar recommendation of the Pay-for-Performance Labor-Management Committee that, rather than replacing the current system, ". . . the Federal Government may be well served by a renewed focus on, and dedication to, improved management of the current . . . system . . . [avoiding] . . . the trauma and cost of a major system change."

We will be happy to work with you and your staff and OPM on these matters.

PMA'S PROPOSAL TO REFORM PMRS AS REITERATED TO PMRS REVIEW COMMITTEE

The following is PMA's proposal to reform PMRS, as reiterated and presented to the PMRS Review Committee, August 23, 1991 See July and August 1989 issues of the *PMA Update* for earlier statements of this same position on PMRS reform.

A. INTRODUCTION

I. Introductory Statement

This proposed plan establishes a simplified, improved performance appraisal system for Federal managers and management officials currently covered under the Performance Management and Recognition System (PMRS).

Overall, this plan takes into account the complaints made by those covered by the system and the complaints made by those administering the system This is a plan which promotes excellent performance as justification for reward, rather than forcing the distribution of reward to drive performance ratings, as has occurred under PMRS. The PMRS system's (and its predecessor, the "merit pay" system's) most notable failure has been in actually linking performance to pay, awards, and other personnel decisions

PMA believes the Government must adopt a simplified performance system It must be a system under which management communicates goals and expectations as well as provides feedback to employees. Performance evaluation must be a positive experience and a motivator. The dishonesty of the PMRS appraisals has led to lack of respect for the appraisal system and has lowered morale. An effective performance appraisal is a positive experience, building on employee accomplishments and strengths. There should be no games to meet predetermined rating distributions or to support particular ends which would then be linked to the rating The proposals here concentrate on those performing at an acceptable or higher level, but also provide for dealing with poor performance.

II. Funding

PMA believes the system really should have additional funds We believe 3 percent of PMRS payroll for bonuses is reasonable. If that amount cannot be allocated for PMRS bonuses, we believe a minimum of 1.5 percent of payroll should be allocated with no ceiling specified, the ceiling being the availability of agency funds.

III. Primary Objective(s)

• A fair, honest appraisal system with no game-playing

• Communicate expectations to and provide feedback to employees.

• The system must be a motivator, a morale-booster, and a positive experience.

• Employees whose performance is unacceptable are provided assistance to reach an acceptable level.

• Excellence and proficiency are suitably rewarded.

B. PROPOSAL

I. Performance Appraisal

• PMA recommends a two-tier performance rating. Each employee is rated either "Proficient" or "Needs Improvement." This recommendation is in line with any number of proposals brought before this committee.

• A two-tier system is the only system that does not make most employees feel like losers. Why should we design a system which crushes the spirit of most of the workforce in order to reward a few so-called outstanding employees when, from what we have been told, those who have been designated as outstanding are often not regarded by their peers as any more outstanding than they are?

• PMA believes that the two-level rating system solves all of the complaints of the present system. More levels (such as three) might be better than the present system but still will not resolve all of the complaints. The two-tier system also seems closer to the management theories of Dr. W. Edwards Deming

• Even the two-level rating system can be looked at as a three-level rating system (without being designated as such), even though the third level is not part of the performance appraisal per se because the third level is composed of those getting the bonuses/awards.

Cont. on pg. 6

PMA's Proposal *Cont. from pg. 5*

• For each element/standard of the appraisal: The rating appraisal for each element/standard merely indicates whether the employee "met" or "failed to meet" the standard. In actual practice, there is seldom any real difference between "meeting," "exceeding," or "greatly exceeding" the standard. Games, dishonesty, and manipulation are inherent in this supposed differentiation. For those agencies which use narrative description of the employee's accomplishment, the narrative description of the employee's accomplishment can round out and elaborate on the "met"/"failed" rating for each element/standard and should suffice.

• An acceptable alternative is no summary adjective rating, as has been recommended by several groups. We believe the two-level rating system accomplished all of the goals of this proposal, however.

• Tools to improve performance: 1) each employee to be rated "needs improvement" is assisted to bring performance to an acceptable level and, to that end, is given a Performance Improvement Plan (PIP), and 2) each employee rated "needs improvement" is not given a step increase.

• There must be true employee participation in setting the standards. Also, a discussion between manager and employee of the evaluation itself must actually take place. (It often does not.)

II. Base Pay

• *First Choice*: In addition to the annual comparability increase, every PMRS employee rated "proficient" gets a full step-increase because of the "proficient" rating — no matter what tercile they fall in — so that PMRS employees reach the top of the grade within 10 years. Why should experienced managers be paid a smaller increase as they become more experienced than those at the beginning of the grade? This gives PMRS managers something extra, a differential, in effect, to acknowledge the importance of these positions.

Second Choice: In addition to the annual comparability increase, every PMRS employee rated "proficient" gets a full step-increase in the first three steps (the first tercile) and a 1/2 step increase in the second and third terciles. (This small change will guard against a small number of those in the present system being disadvantaged by this new system.)

• *Additional Base Pay as Award (or Equivalent of "Quality Step Increase" (QSI)).*

Managers may select from among those rated "proficient" to recommend for an extra step increase — what is now a QSI. (This would be a separate procedure from the performance appraisal and would be looked at as an "award," but is mentioned here because it would be an increase in base pay.)

III. Awards/recognition

Apart from the process of appraisal, managers may recommend from among those rated "proficient" to receive some or all of the following:

• An increase in base pay — an extra step increase (QSI).

• A bonus amount which is not part of base pay — no floor imposed on individual awards.

• Additional Government-wide "Distinguished"/"Meritorious" Awards, comparable to SES "Distinguished/Meritorious" Awards.

• Provide for agencies to adopt various non-cash awards, such as extra days of leave, prizes, plaques, etc.

• Panels established to review these award recommendations — to either make final decision or to make recommendations prior to final decision. Mandate PMRS employee membership to be represented on the panel, at least some of which appointments to be made from among recommendations of the PMRS management association if there is membership therein in the agency.

• Agencies may, in addition to the above, have other, additional systems (for example, gainsharing) for rewarding employees.

IV. Other

No PMRS manager/management official should have fewer privileges than GS employees. In fact, there should be something extra given to GM managers to encourage entry into management ranks. GS-13 to 15 employees have no incentive to become GM if they are not being promoted. Accordingly we recommend the following:

• No GM manager/management official should have fewer privileges than GS employees in the agency. For example, in some agencies all employees, both GS and GM, are eligible for flextime. In others, GM

Cont. on pg. 7

PMA's Proposal *Cont. from pg. 6*

employees lose the opportunity to be in flextime. This is a particular disincentive to women.

• All PMRS managers should have their annual leave carry-over increased above 30 days (maybe to 45 to 60 days). (SES members have unlimited annual leave carry-over.)

• Consider a supervisory differential, no matter how small.

• Everyone promoted into PMRS from GS will be placed in a step giving them at least an 8 percent raise in pay, rather than the current 6 percent.

• All rating officials are given a mandatory minimum of 8 (maybe more) hours training in appraisal/award process, concentrating on how to make this a motivating, positive, morale-building experience.

• It should be emphasized to all managers that they themselves play a significant role in their employees' performance and that, in most, or at least many, cases, their employees' performance reflects their own managerial success or failure. Many managers believe their role is to be a policeman and a judge when their role is more akin to that of a cheerleader and a coach.

C. CONCLUSION

The above proposed system eliminates all the barriers to an effective pay-for-performance system. It keeps the strengths of the present PMRS system and eliminates its weaknesses. There is a direct link between employees' pay and performance, although the *process* of appraisal is delinked from the bonuses/awards in order to eliminate all of the reasons for providing inaccurate performance appraisals. The system should be a motivator and should encourage cooperation instead of pitting employees against each other. It also removes any disincentives that now exist for employees to be covered under the PMRS system. Performance should be more objectively evaluated. It provides employees security in that they know what their rewards are for being proficient. It also provides upper-level management with flexibility in providing awards/QSI's and the amount of money available need no longer be a barrier to an honest, simpler, less burdensome, productive, motivating, morale-boosting, and fairer performance appraisal system. ◆

PMA PRESS RELEASE

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FOR RELEASE: IMMEDIATE, Tuesday July 18, 1989

PMA TESTIFIES THAT NEW PAY-FOR-PERFORMANCE SYSTEM FOR MANAGERS NEEDED

The Professional Managers Association (PMA) tells Congress that a new system for evaluating GM-13 to GM-15 Federal managers is needed.

"In order to foster a culture of excellence in Government, we need a system that does not pit managers against one another, but instead measures a manager's performance against standards," states Helene Benson, PMA President.

"Under the present Performance Management and Recognition System (PMRS), the majority of managers who meet or exceed performance standards are made to feel like losers," according to Ms. Benson's testimony before the House Subcommittee on Compensation and Employee Benefits on July 18.

PMA's survey of PMRS managers revealed a high level of unhappiness with the present system, despite the fact that managers are generally financially better off under PMRS than under the General Schedule (GS) System. One survey respondent stated, "I have been a PMRS 'winner' for six consecutive years. I find application of the process to be unfair, inconsistent, illogical and fraught with favoritism." Another stated, "Every year...I received an outstanding or distinguished rating, except for one. Based on this record you would think I would be supportive of PMRS. This is not the case, because the truth is this accomplishment was achieved at the expense of the organization and the public we serve...."

PMA supports H.R. 2886, introduced by Representatives Gary Ackerman (D-NY) and Steny Hoyer (D-MD), as an improvement over the present PMRS system in several important ways -- separate processes for performance appraisal and bonus recommendations; an enlarged minimum bonus pool; establishment of performance review boards, which include GM-13 to GM-15 managers; and improved merit increases.

PMA prefers a two-tiered rating system to H.R. 2886's three-tiered rating system, although PMA recognizes a three-tiered system as an improvement over the present five-level system.

Ms. Benson states in her testimony, "It is important ... that we have a system where those who have met standards of acceptable performance are not perceived as or made to feel like losers. Otherwise, we'll wind up with another 'report card' that flunks."

P.O. Box 895 • Ben Franklin Station • Washington, D.C. 20044

PMA

PROFESSIONAL MANAGERS ASSOCIATION

STATEMENT OF
PROFESSIONAL MANAGERS ASSOCIATION

Before the
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

July 18, 1989

on
Reauthorization of the
Performance Management and Recognition System

Presented by
Helene A. Benson
President
Professional Managers Association

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present the views of the Professional Managers Association regarding the imminent termination of the Performance Management and Recognition System (PMRS) as provided under existing law.

The Professional Managers Association (PMA), an association of Federal PMRS managers, conducted a survey to obtain the opinions of Federal managers covered by PMRS preparatory to developing our position regarding the continuance or not of the current PMRS program. We received responses from more than 2300 managers located in 43 states and throughout more than 37 Federal agencies.

Our survey confirms the impression we have had, based on complaints about PMRS since its implementation, that PMRS is also, in words describing the "merit pay" system it replaced, a "disincentive millstone on the back of the Federal Government."

Over 86% of those responding to our survey support the premise that pay should be linked to performance. However, I would like to share with you some of the other statistics we developed from our survey. They clearly point to issues of concern regarding the effectiveness of the PMRS system, as now in place, in meeting and attaining the desired results.

- Only 13% of those responding believed that PMRS has had a positive effect on their performance; nearly 63% believed it has had no effect; and a significant 22% reported a negative effect.

- Only 21% reported that PMRS is a useful approach to tracking and communicating organizational and individual performance.

- About 10% indicated that there were sufficient monies to make PMRS awards meaningful; nearly 80% believed that there was insufficient money for the effort to be meaningful; the remaining 10% were unsure.

When we asked whether or not quotas and forced distributions were common in their experience, only 5% reported that they are not; a disturbing 86% stated that they are common. More than three-fourths of those surveyed believed that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management. And to what degree does favoritism influence ratings? Thirteen percent replied that favoritism was not a factor; 14% were unsure; 72% believed that ratings <u>are</u> influenced by favoritism.

Despite the fact that managers are generally financially better off under PMRS than under the General Schedule (GS), only 3% of those responding believe that PMRS should be retained. Almost 50% recommended a revised pay for performance system and 41% would like either an improved GS system or a return to the GS system as it existed before PMRS.

Under PMRS the majority of managers who meet or exceed performance standards are made to feel like losers. Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS -- an unhealthy situation.

We would like to make the statistical results of our survey a matter of record with the Subcommittee. Suffice to say, we cannot report that the PMRS is highly regarded by the majority of those it directly affects. The overall perception is one of inequity, insufficient funding for meaningful awards, a paperwork burden that is overwhelming and not worth the result, and a morale defeater not booster.

We also wish to enter into your record a compilation we have made of specific comments submitted in our survey. We believe, however, that an anonymous respondent may have summed it all up in words that just about every citizen could understand and appreciate. He or she wrote:

> PMRS robs from the many to give to the few. It's a rip-off to work your best for a year to only get a pittance as a merit increase. My teenage daughter -- who doesn't do what she's told half the time -- gets an allowance that's more than I got for a year of consistently high level work recognized by plaques, citations, letters of commendations from many outside of my organization. It's demoralizing.

Enough said for where we have been. Where do we go from here?

A recent article by Andrea Gabor for U.S. News and World Report (June 5, 1989), entitled "Catch a Falling Star System," provides food for thought. Ms. Gabor wrote: "In plucking a handful of whizzes for bonus pay, most schemes treat the bulk of employees like losers." She was writing about private industry systems of "annual reviews and performance rankings to identify and reward star achievers while encouraging the rest of their employees to improve performance." She reports that, rather than rallying employees, merit systems can erode initiative and morale by making hairsplitting distinctions between individuals. She notes that American firms are re-examining their tracking systems and are concluding that "the report cards, not the people, are flunking out." She quotes management expert W. Edwards Deming as branding yearly appraisals as "the most powerful inhibitor to quality and productivity in the Western World."

We do not propose to be quite so damning of pay for performance systems. However, most of our respondents believe the PMRS system should have major changes. Reports by GAO and OPM had similar findings.

First and foremost, except for those managers who are failing in their performance, there should be no other perceived "losers." If a manager has less than an "Outstanding" rating, even perhaps a "Highly Effective," his or her performance is suspect. To be "Fully Successful" is to have failed.

Although no appraisal system will take care of all complaints, we think that the proposed "Performance Management and Recognition System Reauthorization Act" improves upon the present PMRS system in several important ways.

We believe it is important to have separate processes for performance appraisal and for bonus recommendations. Because their performance appraisals are so important to employees throughout their careers -- with respect to their morale, their promotion opportunities, their ability to seek other positions, etc. -- it is very important that performance appraisals be fair and accurate and that they be driven by no considerations other than the employee's performance. Our survey has shown that managers' performance appraisals are much more important to them than whether or not they are awarded a bonus.

The establishment of a minimum bonus pool of 1.5% of PMRS payroll, with no legislated maximum -- the maximum depending on the agency budget and priorities -- is also an important improvement. One of the constant complaints about PMRS and its merit pay predecessor was insufficient money.

While we agree that supervisors should be able to recommend for bonuses both those rated "fully successful" and those rated "above fully successful," we do not agree with the requirement that the minimum bonus be 5%, especially in such circumstances, as now exist, of limited funds. Although one of the complaints about PMRS is small bonuses, we nevertheless strongly suggest that the amount of the bonuses be left to the discretion of the agencies -- at least as far as minimums are concerned. We believe it is far better for agencies to be able to award bonuses to all who deserve them, even if the price is a smaller bonus. We would agree with a minimum bonus only if sufficient funds were allotted for agencies to award bonuses to all who deserve them.

We believe the establishment of performance review boards to review supervisors' recommendations for bonus awards, consisting of five individuals, at least 3 of them PMRS managers, two of whom are to be selected from a list submitted by a management association representing agency managers, could be an important step in building employee confidence in the system. While the boards established by the bill are not necessarily peer groups since only three members are required to be PMRS managers, they do at least include PMRS managers. Peer review groups are now utilized by many agencies to review supervisors' award recommendations because it is thought that peer review and approval is important in establishing the credibility of awards.

The most important improvement is half-step increases in Steps 4 and above for those managers who are fully successful in meeting their performance standards and full step increases each year for those rated above the fully successful level. This feature makes up for past injustices in the PMRS system and its predecessor and provides an incentive for employees to be willing to be covered by the system. One of the most serious complaints about PMRS and its "merit pay" predecessor was that employees had no incentive to take managerial jobs covered by the system.

We would prefer a two-tiered rating system, rather than a three-tiered system. The two levels we suggest are "Proficient" and "Needs Improvement." Perhaps other adjectives may do. Clearly we have to obliterate the psychological hurts that are being inflicted by the current system. We are not sure a three-tiered rating system, though clearly an improvement over the present five-level rating system, will accomplish this because those not rated "above fully successful" will still feel like losers. To meet the intent of the law establishing PMRS -- that organizational effectiveness be improved and that productivity be increased -- we must devise a system that brings people together, not one that pits them one against another. We question a system devised solely for the benefit of so-called "super-stars," especially when one of the most frequent and bitter complaints about PMRS has been favoritism. We must devise a system where those doing a good job and meeting agency expectations feel good about themselves. It is important, if we wish to have a culture of excellence in Government, that we have a system where those who have met standards of acceptable performance are not perceived as or made to feel like losers. Otherwise, we'll wind up with another "report card" that flunks.

We hope to wind up with a system which, when a survey on it is conducted in the future, will show a much higher degree of acceptance in the workforce. None of our managers -- on whom we rely so much to carry out the public business, to serve this nation -- who are meeting this challenge need nor deserve ever to feel like losers -- they're all mostly winners and deserve meaningful recognition.

I thank you for this time and your attention.

PMA
news release

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PMA's PMRS Survey Results

Managers covered by it are very unhappy with the Performance Management and Recognition System (PMRS), the performance appraisal system covering grades 13, 14, and 15 supervisors and managerial officials.

The Professional Managers Association (PMA), an association of PMRS managers in the Federal Government, conducted a survey to obtain the opinions of PMRS managers on the PMRS system. "PMA's survey confirms that the overall perception of PMRS is one of inequity, a paperwork burden that is not worth the result, and a morale defeator not booster," stated Helene Benson, President of PMA.

A disturbing 86 percent of those surveyed reported that forced distribution of ratings is common. More than three-fourths of those surveyed believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management. Almost three-fourths believe that ratings are influenced by favoritism. Sixty-three percent believe PMRS has had no effect on their performance and a significant 22 percent report a negative effect. On the other hand, 86 percent of those responding to the survey support the premise that pay should be linked to performance.

The merit pay provisions of the U.S. Civil Service Reform Act of 1978 (CSRA) were hailed as a means for making federal managers and their organizations more responsive, efficient, and effective. Instead, merit pay proved to be so counterproductive that it was described as a disincentive millstone on the back of the Federal Government. In 1984 Congress sought to remedy the problems of the merit pay provisions of the CSRA by creating PMRS. PMRS has also been a dismal failure.

Despite the fact that the managers are generally financially better off under PMRS than under the General Schedule (GS), only 3 percent of those surveyed believe that PMRS should be retained. "Under PMRS the majority of managers, who meet or exceed performance standards, are made to feel like losers," claims PMA President Benson. "Instead of measuring a manager's performance against standards, the managers are pitted against each other under PMRS -- an unhealthy situation."

PMA's survey elicited more than 2,300 responses (2,047 responses were tabulated) from Federal managers located in 43 states and throughout more than 37 Federal agencies. PMA conducted the survey on PMRS because of the large number of complaints PMA has received about PMRS since its implementation and

(continued)

because, under Public Law 98-615, PMRS must be reenacted or cease after September 30, 1989. PMA's survey further confirms that a substantially revised appraisal system is vitally necessary.

The following are the survey results.

- <u>Do you agree .... that pay should be linked to performance?</u>

  86% of those answering the questionnaire agreed that pay should be linked to performance.

- <u>Do you have a good understanding of what is expected of you as a result of PMRS?</u>

  55% of those answering the questionnaire felt that PMRS fosters a good understanding of what is expected of employees.

  30% felt that PMRS does not foster a good understanding of what is expected of employees.

- <u>What kind of impact has PMRS had on your performance?</u>

  Only 13% of those responding felt that PMRS has had a positive effect on their performance.

  63% felt that PMRS has had no effect.

  22% felt that PMRS has had negative effect on their performance.

- <u>Does PMRS offer a useful approach for tracking and communicating organizational and individual performance?</u>

  Only 21% of employees responding felt that PMRS offered a useful approach to tracking and communicating organizational and individual performance.

  61% felt that PMRS did not offer a useful approach.

  16% were uncertain.

- <u>Should it be possible to assign any rating to a PMRS employee without requiring a cash award?</u>

  57% of those answering the questionnaire felt that performance cash awards should not be mandatory (<u>e.g.</u>, as required by statute for PMRS employees with Outstanding performance ratings).

  25% felt that such awards should be required.

  15% were uncertain.

- <u>Quotas and Forced Distributions.</u>

  86% of those responding to the questionnaire believe that quotas and forced distributions are common under PMRS.

- <u>Ratings under PMRS influenced by favoritism.</u>

  72% of employees responding believe that ratings are influenced by favoritism.

  13% believe favoritism not to be a factor in determining ratings.

  14% were unsure.

- <u>Degree of participation between managers and their subordinates in writing performance standards.</u>

  62% of employees responding felt that there is not a high degree of participation by subordinates with their supervisors in writing performance standards.

  28% felt that the degree of participation is adequate.

  8% were unsure.

- <u>Insufficient money for PMRS increases/awards to be meaningful.</u>

  79% of those answering the questionnaire felt that the amount of money for PMRS awards is insufficient to be meaningful.

- <u>PMRS recognition of high performers.</u>

  57% of those answering the questionnaire felt that PMRS does not promote recognition of high performers.

  25% felt that PMRS promotes such recognition.

  17% were unsure.

- <u>PMRS characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management.</u>

  77% believe that PMRS is characterized by changed ratings, dictated ratings, or pressure to rate in a prescribed manner by higher level management.

  12% were unsure.

- 3 -

Only 10% felt that such characterization is untrue.

- <u>PMRS ratings influenced by factors other than performance.</u>

  An overwhelming 86% of those answering the questionnaire felt that PMRS ratings are influenced by factors other than performance.

- <u>Satisfaction of employees with amount of input they have in writing their performance standards.</u>

  45% of those responding believe employees to be dissatisfied with the amount of input they have in writing their performance standards.

  33% believe employees are satisfied.

  21% were unsure.

- <u>PMRS hurt morale of PMRS employees.</u>

  66% believe PMRS has hurt morale of PMRS employees.

  20% were unsure.

  13% believe PMRS has not hurt morale.

- <u>PMRS promotes identification and correction of performance problems.</u>

  69% of those responding believe that PMRS does not promote identification and correction of performance problems.

  Only 13% perceive that PMRS promotes such identification and correction.

  17% were unsure.

- <u>Schedule C appointees receive a disproportionate share of higher ratings and award money.</u>

  56% of employees answering the questionnaire were unsure as to whether Schedule C appointees receive a disproportionate share of high ratings and award money.

  37% felt that Schedule C employees receive a disproportionate share.

Only 3% felt that Schedule C employees did not receive disproportionate share.

- Higher level managers receive a disproportionate share of higher ratings and award money.

  64% of those responding felt that higher level managers receive a disproportionate share of higher ratings and award money.

  25% were unsure.

  Only 9% felt that higher level managers do not receive a disproportionate share.

- Are there advantages to being a mid-level manager covered by PMRS?

  69% of those completing the questionnaire felt that there are no advantages to being covered by PMRS.

  15% were unsure

  13% felt that there are advantages to being in PMRS.

- Do you believe you are financially better off than if you had been under the General Schedule?

  40% of those responding believe themselves to be worse off than if they had been under the General Schedule.

  29% believe themselves better off under PMRS.

  29% felt that PMRS has had no effect either better or worse.

- Should PMRS be extended to all employees?

  A substantial majority - 73% - of those responding to the survey felt that PMRS should not be extended to all employees.

  15% were uncertain.

  Only 10% felt that PMRS should be extended to all employees.

- How has PMRS affected performance of your subordinates in GS?

  66% of supervisors responding feel that PMRS has had no effect on performance of their GS subordinates.

  12% felt that PMRS has had a harmful effect on performance of their GS subordinates.

5% felt that PMRS has served to improve performance of their GS subordinates.

- How has PMRS affected the morale of your subordinates in GS?

51% of supervisors responding feel that PMRS has had no effect on morale of GS subordinates.

29% felt that PMRS has had a harmful effect on morale of GS subordinates.

Only 1% felt that morale of GS subordinates had been improved by PMRS.

- To what degree have PMRS objectives of recognizing, rewarding, and motivating quality performance been achieved?

60% of those responding feel that the objectives of recognition, reward, and motivation toward quality performance has been achieved only at a low level.

28% felt that the objectives have not been met at all.

Only 7% felt that the objectives have been met to a high degree.

- To the question .. If you have a choice, which would you recommend?

47% felt that there should be a revised performance appraisal system.

41% felt that GS should be restored either with modifications or as it was.

- With modifications, 23%
- As it was, 18%

Only 3% felt that PMRS should be retained.

- Are you better off to deliver service to the public as a result of PMRS?

80% felt they are not better able to deliver service to the public as a result of PMRS.

11% are uncertain.

Only 3% felt that PMRS made them better able to deliver service to the public.

COMMENTS TAKEN FROM RESPONSES TO PMA'S QUESTIONNAIRE ON PMRS

"I feel PMRS causes first line managers to keep new ideas to themselves in order to outdo their associates rather than share ideas to improve our agency."

"Supervisors don't have control over their budget, hiring, firing, etc. There is too much competition among managers instead of cooperation."

"Typically a good concept such as pay for performance gets distorted in implementation."

"The present SES, GM, GS divisions have created a caste system with constituencies that compete against each other for a share of the "pie".

"Although I have received almost $12,000 in PMRS awards during the last 7 years, I would prefer a system perceived as more equitable."

"The existing system discourages high performers because of quotas. If you get high rating one year, superviors tend to give to someone else the next year or two, even if your performance remains high."

"PMRS has lowered morale because it does not necessarily recognize quality performance. The quota system has made it such that some divisions have several quality employees yet only one can be recognized. If no one is quality, someone is still recognized."

"PMRS has been a prime source for the deterioration of quality management within government service. High performers are frustrated and disillusioned with a system dictated by dollars available not job performance."

"PMRS has created mountains of paperwork with little apparent change in rewarding good performance and punishing bad. There is little reward for high level performers, ratings are often influenced by budgetary contraints, and less fair than under GS system."

"Currently under PMRS a satisfactory rating is perceived as negative and resented."

"PMRS has not affected my performance because of my own desire to strive for a job well done and because I take pride in my work. I have received several outstanding ratings while under PMRS which have equated to a lousy 2.9%, why bother?"

"Since awards are by quota it makes no difference how hard I work. When my turn comes, it comes."

"If quality is to be first in customer relations and the use of numbers eliminated, then PMRS must be dismantled."

"Under PMRS teamwork and esprit de corps have been destroyed."

PMRS has been a monumental exercise in nothingness since it was implemented. With all the paper it consumes, a good size forest no longer exists."

"PMRS stresses goals that cause managers to look out only for themselves. It does not foster a team approach. It also results in awards for reasons other than merit which destroys the system."

"We encourage our best and brightest employees to aspire to become managers. When they do, we can't adequately reward them. There are no perks and their pay may actually suffer."

"PMRS is neither merit nor pay."

"Every year from the beginning of PMRS I received an outstanding or distinguished rating, except for one. Based on this record you would think I would be supportive of PMRS. This is not the case, because the truth is this accomplishment was achieved at the expense of the organization and the public we serve. However, as long as PMRS is retained, I will continue to respond to those incentives which benefit me personally."

"PMRS is a paperwork nightmare with little or no measurable pay off. It is not cost effective."

"PMRS should be uniformly administered so that people don't suffer windfalls or wipeouts solely based on the size of their pay pools."

"I personally would prefer not to receive any award but receive a rating that truly reflects what I deserve since it influences my future, i.e. promotion potential, rif points, etc."

"Please review In Search of Excellence. The PMRS system is exactly what you should not do to promote quality, morale, initiative, etc."

"Many of my people make more than I do. Is this how a manager should be rewarded? Even if I perform at the highest levels, I'll eventually fall behind people who work for me who get full step increases are are the same grade I am."

"PMRS is a giant step backwards for government managers. Only a few have benefited from it. Many deserving managers have received nothing through PMRS. It should be discontinued."

"Pay for performance has turned out to be a cruel joke played on people who often have the most difficult jobs in government. Many times GS employees fare better with regard to $ than their GM counterparts."

"In my opinion only about 2 or 3% of the PMRS workforce is truly outstanding. To the extent that there have been quotas, they have probably been too generous."

"PMRS is too time consuming to justify the minimal amounts involved. It has created a pecking order that has hurt morale and fostered personal and professional jealousies."

"I have been a PMRS "winner" for six consecutive years. I find application of the process to be unfair, inconsistent, illogical and fraught with favoritism."

"As a GM-14, step 10 I have received 5 distinguished performance awards. PMRS still stinks! Even though it has been good for me personally, it must be changed for the good of the organization."

"PMRS is a poor system that is further hindered by its designed objective to reduce total pay compensation and not necessarily to encourage improved job performance."

"There seems to be an imbalance when executives are receiving $10,000 awards yet there is not enough money to go around for meaningful awards for supervisors and managers."

"PMRS is a farce. I am not optimistic that any fair system can be established in the Federal service. As arbitrary as the old GS system was, it was not based on the capricious and patently unfair day-to-day considerations of the present system."

"The dollars provided even to outstanding achievers don't warrant the overall bad effects of the system. Technicians get more money for their efforts. Let's recognize more."

"Crudely, but concisely, PMRS sucks! Accountability for performance and assessment of performance have decreased while morale and motivation have declined to the detriment of quality public service."

"I will continue to do the best job I can but PMRS has certainly soured my attitude. I received a superior rating last year and received a $1375 bonus. This year I received a superior rating which was changed because our State was over its quota."

"Many employees would settle for the recognition of their efforts and the additional consideration during RIF procedures of a superior rating and would forego the $. Make agencies accountable for their performance management decisions so they cannot prostitute the system."

"Where ratings are changed, especially when we lower the proposed rating, we need to be accountable to the employee for this action. This area is one of the worst morale killers I've seen."

"Several of my subordinates have stated they have no interest in management because of PMRS. We must change the system so it is no longer a deterrent for good people to enter management careers."

"The past Administration treated Federal employees with thinly disguised contempt, a lack of respect, and engaged in a campaign to cheapen Federal service. If you think a buffed up PMRS is going to address 8 consecutive years of neglect, you are mistaken."

"Too many managers are receiving ratings above satisfactory which dilutes the amount of an award to meaningless levels. I would rather see large cash awards to fewer managers who truly performed well and specific, measurable expectations. Others could receive non-cash recognition."

"PMRS is not a motivational tool. It is a woefully inadequate response to an unmet need; realistic and fair performance appraisal."

Ms. NORTON. Thank you very much, Ms. Benson.

Mr. Duncan.

Mr. DUNCAN. Thank you, Madam Chair and members of the subcommittee. I am past president of the National Council of Social Security Management Associations, and manager of the Social Security Field Office in Columbia, MO. On behalf of nearly 4,000 employees in both the GS and GM systems, we welcome an opportunity to testify about PMRS and OPM's performance management reform proposal.

We appreciate the interest Chairwoman Norton and her staff and the other members of the subcommittee have shown in finding better ways to encourage and recognize excellence among Federal employees.

The history of PMRS and its predecessor, the Merit Pay System, is a troubled one. The overwhelming mandate of our members is to truly reform the system, or, failing that, to eliminate it and return GM employees to the GS system.

We now know from experience that any so-called merit pay program will fail if it is predicated solely on the mistaken belief that higher levels of performance and productivity will result from monetary rewards for good performance and the threat of no monetary gain for bad performance.

Our written testimony summarizes how we got to where we are today and what our PMRS reform recommendations are. We continue to strongly support the recommendations of the PMRS review committee, of which we were a member. This afternoon, however, we will concentrate on OPM's latest proposal.

We welcome some of OPM's proposals, especially the authority for agencies to move to only two performance ratings levels and to establish administratively separate bonus programs. We share the view that agencies must be permitted to develop tailored performance management programs. These programs should be closely aligned with the mission of each agency.

We are pleased that OPM's proposal encourages innovation and flexibility, but we believe that agencies often need more than encouragement to make needed changes. OPM should be empowered with an enforcement mechanism to see that agencies consult with employees, develop modifications, and implement improvements in a reasonable period of time.

To meet the goals of decentralization and flexibility, it is imperative that subcomponents like the Social Security Administration, a large agency with a different culture and mission from other parts of the department, be given an opportunity to develop its own system.

Repeatedly, work on the questions of how to improve accountability, promote improved performance, and motivate employees has led to the importance of the timing between desirable performance and the reward or recognition of that performance. One positive attribute of PMRS is that merit-based pay increases, comparable to step increases under the GS system, or portions of them were paid annually rather than after longer waiting periods.

It is counter to the objectives of any pay-for-performance system to delay pay increases associated with successful performance far beyond the conclusion of the evaluation periods. We, therefore, strongly recommend that the GS system be changed to adopt the timing of step increases which currently applies under PMRS.

As the PMRS review committee recommended, if an agency moves to a two-level summary ratings system, successfully performing employees should receive a full-step increase during their first 3 years in a grade and a one-half step increase thereafter. This proposal should be adopted for all GS employees under the OPM proposal.

The need for annual performance-based payouts has been made especially compelling by the absence of award funding. Currently, the budget reconciliation process appears to be heading toward elimination of funding for cash awards Government-wide for as long as 5 years and we are facing a 1-year or longer freeze on the nationwide general cost-of-living pay increase, followed by reduced increases thereafter due to deficit reduction.

Annual performance-based increases not only make sense from a pay-per-performance perspective, but would help somewhat to offset the inequities of reductions in the general increase.

We oppose the OPM proposal to eliminate the use of fixed steps within pay grades. This proposed change will be seen by Federal employees and their managers and supervisors as another in a long string of attacks on Federal pay and benefits. Any equity in the proposal will disappear under the belief that this is just another way to save money at the expense of Federal employees.

Should this change be adopted, however, any money saved should be maintained in the Federal employee budget and be utilized for Federal employee compensation. A portion of the savings, both current and ongoing, could be used to pay the additional cost of the annualized salary increases we recommend.

Finally, we believe that the special roles and responsibilities of managers and supervisors should be recognized. If managers and supervisors return to the GS system, it could become even more difficult to provide recognition of their special role and contribution.

As recommended by the PMRS review committee, we strongly urge the adoption of a supervisory differential to be paid to employees Government-wide who meet appropriate criteria which should be established by OPM and applied uniformly at all agencies.

We commend OPM for its successful effort to draw from diverse sources and perspectives and form a coherent proposal containing good ideas and new possibilities for improved performance management. While we recommend the concrete changes I have described, we believe the OPM draft provides a good basis from which we can move forward cooperatively to develop a legislative proposal.

We envision a strong role in both leadership and oversight for OPM and performance management is redesigned to move Federal agencies toward better achievement of their varying and critical missions and better recognition and reward for the employees responsible for that achievement.

Thank you.

[The prepared statement of Mr. Duncan follows:]

PREPARED STATEMENT OF ROBERT S. DUNCAN, IMMEDIATE PAST PRESIDENT, SOCIAL SECURITY MANAGEMENT ASSOCIATIONS

NCSSMA welcomes this opportunity to testify concerning the Performance Management and Recognition System (PMRS) and OPM's proposal to allow PMRS to sunset later this year. We want to express our appreciation to Chairwoman Holmes Norton and her staff and all Members of this Subcommittee for their interest in the question of how to better encourage and recognize excellence among federal employees throughout the government.

Today's hearing provides the opportunity for this committee to hear the views of those actually covered by PMRS. All members of our association are either covered by or affected by PMRS. SSMA was founded over twenty years ago to represent the views of Social Security field office managers and supervisors across the country. We have over 3,500 members in more than 1,300 field offices who hold the most publicly visible and accountable jobs in SSA. We provide direct service, in person and over the telephone, to those applying for benefits and to the more than 46 million Americans already receiving Social Security benefits or Supplemental Security Income.

Within the SSA field office structure, PMRS plans establish the goals and objectives not only for those directly covered by the system but also for managers and supervisors under the GS system who are supervised by those under PMRS.

Our testimony consists of five parts: (1) a description of the essential elements of PMRS; (2) an analysis of the problems which continue to exist despite recent attempts to improve the system; (3) a summary of the recommendations we have made in the past; (4) a brief review of the conclusions of the congressionally-mandated 1991 PMRS Review Committee, of which SSMA was a member; and (5) response to OPM's draft "Principles and Features of Performance Management Reform."

ELEMENTS OF PMRS

In 1984, PMRS was enacted to replace the failed Merit Pay System. PMRS was designed to remedy defects in the Merit Pay System by providing greater structure to the system and more equity and consistency in GM pay and bonuses across federal agencies. PMRS mandates five summary performance rating levels and ties salary increases and eligibility for cash awards to the rating received. Employees at the fully satisfactory level or above receive the full general salary increase each year; employees rated unsatisfactory receive no general salary increase; those rated minimally satisfactory receive one-half of the general salary increase. PMRS merit increases were established to provide equity with GS "step" increases, but are paid annually—a "full step," "one-half step," or "one-third step" depending on rating and placement in grade. Those rated below Fully Successful do not receive merit increases.

While PMRS intends cash awards to be the component by which exceptional performance is rewarded, it ties the awards to the rating level achieved. Employees receiving a rating of Fully Successful and above are eligible for bonuses. Prior to a recent legislative change, employees achieving the top rating level, Outstanding, received a minimum award of two percent of annual base pay. Each agency has been required to spend between 1.15 and 1.5 percent of aggregate GM base pay on PMRS awards.

PMRS statutes prohibit agencies from directing the distribution of performance ratings. Performance standards are to be jointly developed by supervisors and employees. Agencies are required to communicate performance standards and critical elements to PMRS employees in writing at the beginning of each appraisal period.

As a result of well-documented problems with PMRS, some modifications were enacted in 1990 and 1991: (1) technical correction of the so-called "third tercile glitch" (an unintentional result of PMRS statute which caused some GM employees rated Fully Successful to fall behind GS employees in terms of step increases); (2) elimination of the mandatory two percent cash award for employees achieving the top rating level (a step toward delinking ratings and cash awards); and (3) authorization for agencies to utilize "work objectives" in lieu of, or in addition to, critical elements and performance standards to evaluate job performance.

Whether these changes have significantly improved PMRS is not yet known. In our view, however, the problems detailed below cannot be overcome by these marginal modifications.

PROBLEMS WITH PMRS

Despite the hard work of many Members of Congress and the best efforts of federal management organizations to improve upon the deficiencies of the Merit Pay System, PMRS has repeated the pattern of failure to motivate and reward performance. It is predicated on the belief that higher levels of performance and productivity will result from monetary rewards for good performance and the threat of no pay increases and awards for bad performance. History has thoroughly taught us differently. Management experts agree that money does not motivate better performance. Under PMRS, we have learned, in fact, that the small size of many awards and the widespread distrust of the awards process have served as demotivators.

The universal criticism of PMRS by GM employees is that it involves neither merit nor pay. The annual appraisal is viewed negatively by both supervisors and employees. A fully satisfactory rating is seen as an average or even below average rating. Almost all employees believe their performance is above average and react negatively to receiving what they consider to be an average rating.

Performance appraisal distinctions between fully satisfactory, excellent, and outstanding levels are often arbitrary and based on subjective or nonperformance factors. Many agencies established a points system in which percentage weights on "critical" and "non-critical" elements are used to determine a final total number of points for each employee. In a 500 point system, a difference of only two points can mean a substantially higher bonus plus a larger merit increase for one employee over another, equally fine, employee. These marginal distinctions are meaningless, lead to abuse of the system, and promote distrust among those under PMRS.

While forced ratings are prohibited, they exist, often by the use of quotas which result in employees "taking turns" to receive excellent or outstanding ratings. The tie between ratings and cash awards, combined with a lack of funds for awards, resulted in performance ratings based on funding limitations rather than on performance. In addition to feeding employee distrust, quotas have often fostered unhealthy competition, rather than cooperation, among employees and are therefore counter to the goal of improved public service.

Employees do not participate in the setting of performance standards even though the law requires that they do. The plans are dictated from above and employees are told to read them and sign on the dotted line. In addition, performance plans are changed throughout the year without employee participation.

Performance plans often focus on what is easily measurable rather than on more important performance factors which are difficult to measure objectively. Subjective criteria, when they are used, are viewed with suspicion by employees. At SSA, we are now seeing subjective criteria—such as improving community outreach activities and better serving the waiting public—appear on PMRS performance plans at SSA. At appraisal time, however, the questions used to determine a rating relate only to selected, objective, measurable criteria rather than to the full scope of the position's responsibilities.

SSMA PROPOSAL TO REFORM PMRS

In a 1989 survey, 99 percent of our members said that SSMA should work to abolish or reform PMRS. Most employees agree with the concept of pay for performance but do not believe better performance will be rewarded under PMRS. There is no employee confidence in the system. Only two percent of SSMA members believed PMRS effectively relates performance and pay. Believing that reforms to remove the serious weaknesses and disincentives experienced under PMRS will not be forthcoming, particularly under the restrictive budget prospects, most of our GM members would prefer to return to the GS pay system rather than retain PMRS.

At the time of our survey, however, we were working with the Federal Managers Association and the Professional Managers Association to develop a new PMRS model which we believed would have at least eliminated the demoralizing elements of the system and which we hoped would move GM employees toward renewed confidence in the promise of "pay for performance."

Our goals were to simplify the system, to ensure that performance became the sole determinant of performance rating, and to alleviate the distrust of and dissatisfaction with PMRS among employees. SSMA felt strongly that if the government hoped to strengthen the tie between pay and performance for all federal employees, it should first reform the PMRS system and prove success of a new model among GM employees before making government-wide changes.

We advocated moving rewards for truly exceptional performance exclusively to a merit bonus system which would be overseen by peer review boards at each agency. We recommended a two-tier performance evaluation system which would be completely separate from the bonus system. While the desirability of a two-tier ratings system may not be obvious to those who have not thoroughly evaluated all options, it is supported by a majority of our members after much deliberation as the single method which guarantees complete separation of ratings and merit bonuses and which eliminates the need for meaningless distinctions to be made among successfully-performing employees. As long as there are ratings categories higher than fully satisfactory, quotas and real or perceived favoritism threaten to taint the ratings system and undermine employee confidence in it.

SSMA also proposed that each agency's bonus pool for PMRS cash awards be increased to three percent of aggregate PMRS payroll to fund meaningful bonuses for top performers.

We advocated an ideal of full merit increases each year for all successful managers under a merit pay system. Managers under PMRS are employees who have proven themselves and competed through the merit promotion process several times to attain their current positions. They have voluntarily accepted increased risks and responsibilities, and they deserve reward for doing a good, solid job and remaining proficient in their skills. While truly superior contributions would be recognized by a cash bonus, we believe the need for bonuses as "motivators" does not exist in a system which regularly and meaningfully rewards hard work and proficiency through annual merit and comparability increases.

PMRS REVIEW COMMITTEE RECOMMENDATIONS

SSMA was appointed to the congressionally-mandated PMRS Review Committee established in 1991 to advise OPM "on recommended policy for a fair and effective performance management system for Federal managers." The Committee was composed of representatives with widely varying backgrounds from agencies and management organizations. All three pay systems—SES, GM, and GS—were represented. Through discussion, compromise and consensus building over several months, and drawing on GAO and MSPB analyses, the National Academy of Science study on pay for performance, and many performance management authorities as well as agencies' experiences with merit pay, the Committee developed a consistent and systematic series of recommendations for reform of PMRS. Those recommendations are set forth in our report entitled "Advancing Managerial Excellence: A Report on Improving the Performance Management and Recognition System."

SSMA continues to endorse the consensus recommendations of the PMRS Committee to: establish a two-level summary rating system to replace the five-level system; establish an administratively separate, independent awards process based upon supervisory nomination; to make all pay increases contingent upon successful performance; to set annual merit-based step increases for successfully performing employees at a full step during the first three years in a grade and one-half step thereafter; to mandate training programs for PMRS rating and reviewing officials and training in communications skills both for managers conducting the appraisals and for those being appraised. It is noteworthy that, of the PMRS Review Committee's 38 final conclusions, eight related to the critical need for improved training and communication for and among employees, managers and agency officials regarding performance measurement, planning and evaluation.

We also support PMRS Review Committee recommendations concerning agency flexibility which would permit agencies to: expand PMRS below grade 13 to cover lower-graded managers and supervisors; reprogram funds to provide more meaningful PMRS bonuses; experiment with new sources of performance appraisal information, including measures of organizational performance; use peer review to strengthen credibility of the system; and establish a supervisory pay differential to recognize the additional responsibilities and obligations of supervision and management.

The PMRS Review Committee's recommendations were compatible with the simultaneously developed recommendations of the Pay-For-Performance Labor-Management Committee. That Committee consisted of representatives of OPM, the largest federal Departments and federal unions. Their findings, contained in a report entitled "Strengthening the Link Between Pay and Performance," are particularly important in considering the new OPM proposal, which would impact the entire federal GS workforce.

We strongly agree with the PMRS Review Committee's conclusion that there is a need to balance decentralization against government-wide policies aimed at restoring fairness and credibility to pay-for-performance. OPM is vested with the critical oversight responsibility attendant to this recommendation.

RESPONSE TO OPM'S "PRINCIPLES AND FEATURES OF PERFORMANCE MANAGEMENT REFORM"

OPM's most recent proposal, as we understand it, would:

(1) extend PMRS briefly to allow GM employees to obtain their earned merit increases under current law for this year;

(2) eliminate PMRS thereafter, returning PMRS employees to the GS system;

(3) maintain the current timing for GS step increases;

(4) eliminate the necessity of setting pay rates only at predetermined steps (fixed dollars amounts) so that employees promoted to a higher grade, and therefore entitled to a two-step pay increase, could be paid at the appropriate fixed increment amount rather than at a fixed step at or above that amount.

(5) permit, but not require, agencies to develop a two-tier performance rating system for all employees;

(6) permit agency flexibility to create their own formats and methods of measuring performance, to use different programs for different "subcomponents," to use multiple sources of internal and external assessment, including peer feedback;

(7) require agencies to design performance management programs in keeping with merit pay principles;

(8) require agencies to involve employees and their representatives in designing a performance management program;

(9) require agencies to consult with employees in developing individual performance plans;

(10) require agencies to give deficient employees an opportunity to improve but to withhold pay increases and retention rights to those who continue to fail to meet expectations;

(11) allow agencies to establish their own budgets for performance awards with some limitations on maximum amounts of individual awards;

(12) permit, but not require, peer review of the awards program;

(13) authorize agencies to establish non-monetary as well as monetary awards;

(14) encourage development of award programs linked to team and organizational achievements;

(15) establish a new authority for "alternative performance and recognition programs" which would enlarge agency flexibility through waivers of pay and classification laws and regulations.

OPM plans to offer leadership and assistance to the agencies by establishing guidelines and principles, issuing guidance about new system flexibilities, providing technical help, and generally assuming the role of an information clearinghouse.

We welcome some of these proposals, most notably the authority for agencies to move to only two performance ratings levels and to establish administratively separate bonus programs. We share the view that agencies must be permitted some flexibility to tailor their performance management programs. A measure of flexibility in this area is a step forward.

Performance management programs should be closely aligned with the mission of each agency. Each program should be required to expressly tie performance measures and accountability to that mission. Performance initiatives should state how they further that mission and require evaluation to ensure that the initiatives are succeeding.

What makes promotion of agency mission in performance management so challenging is the inescapable problem of how to measure performance in such a way as to take into account the overall mission of an agency, rather than focusing only on the component workloads that are most easily measurable by some objective standard. At SSA, we have firsthand experience with the pitfalls of overly emphasizing the easily measurable. We are a service organization, and in all service organizations measurements of service are so hard to obtain that workload processing ends up being used as a surrogate for service. Emphasizing processing times can, in fact, actually work counter to service goals.

Agencies will only succeed in tailoring effective performance management plans to the extent that they tackle the real issue of whether or not they are truly achieving their mission. This could entail a movement toward project evaluation and group awards rather than individual appraisal. It will certainly require, for many agencies, modifying organizational philosophies to enable change to occur.

While we are pleased that OPM is opening the door to innovation and flexibility, we are seriously concerned about whether OPM's encouragement and assistance will be sufficient to ensure that agencies modify and implement performance management programs equitably and effectively. Even in those cases where agencies are to be "required" to comply, we suspect compliance will be hard won. For example, current law requires agencies to have employees participate in development of their performance plans. Too often this does not happen. The PMRS Review Committee discussed this problem repeatedly as proposed that existing provisions be enforced by OPM. In maintaining this requirement, which is so important to the success of any performance management program, how will it now be enforced? In this regard, we believe that OPM should seriously consider the PMRS Review Committee's recommendations regarding mandated training, communication and feedback improvements for all involved.

We strongly believe that the role of OPM must be more than that of a clearinghouse for information, an offerer of guidance without the power to effect needed change. This concern is two-edged.

First, we know that agencies often need more than encouragement to make needed changes. We believe that OPM should be empowered with an enforcement mechanism to see that agencies consult with employees, develop modifications, and implement improvements within a reasonable time frame. The disappointing lack of response to the authority recently given agencies to move from five-level to a simplified three-level summary ratings system for GS employees is a good example of the "no change" that too often occurs unless agencies can be motivated to adapt new ideas and change their organizational philosophies. We think that OPM should play an important role in bringing about these changes.

At the same time, OPM should be vested with the authority to develop formal criteria in conjunction with employee and management organizations to ensure equity across federal agencies. Liberal flexibilities and decentralization could mean visiting on all employees the serious problems encountered by GM employees under the original Merit Pay System, which PMRS attempted to address.

Another question about where decentralization should begin and where it should end concerns agencies, such as SSA, which are very large "subcomponents" of their Departments and are significantly different in workplace and culture from other "subcomponents". Yet under this proposal they have no assurance that they will have the freedom to tailor their own performance and awards program, because Departments are permitted, but not required to give them that freedom. If the goals of decentralization and flexibility are to be carried out, it is imperative that "subcomponents" be guaranteed the opportunity to develop their own systems. This is yet another area where there should be an enlarged role for OPM.

Repeatedly throughout our years of work on the questions of how to improve accountability, promote improved performance, and motivate employees, we have returned to the importance of the timing between desirable performance and reward/recognition of that performance. One positive attribute of PMRS is that merit-based pay increases (comparable to step increases under the GS system) or portions of them are paid annually rather than after longer waiting periods.

We believe it is counter to the objectives of any pay-for-performance program to delay pay increases associated with successful performance far beyond the conclusion of the evaluation period. We therefore strongly recommend that the GS system be changed to adopt the timing of "step" increases which currently applies under PMRS. As the PRMS Review Committee recommended, if an agency moves to a two-level summary rating system, successfully performing employees should receive a full step increase during their first three years in a grade and one-half step increase thereafter. This proposal should be adopted for all GS employees under the OPM proposal.

The need for at least annual performance-based payouts is made especially compelling by the failure of the bonus systems and the absence of bonus funding. Currently, the Budget Reconciliation process appears to be headed toward elimination of funding for cash awards government-wide for as long as five years. Even if funding is obtained during this time, agencies' overall budgets are being reduced to the extent that they may choose not to fund cash awards except for a very few "superstars", or they may fund bonus pools for more widespread but very small payouts. The flexibility proposed to allow agencies to set their own "budget parameters" for bonuses may result in wide disparity across agencies in numbers and sizes of bonuses and may also result in some agencies reprogramming bonus pool money for other purposes. Performance-based increases to base pay will likely be the single way employees are meaningfully rewarded for good work.

In addition, we are facing a one-year freeze on the nationwide general cost-of-living pay increases, followed by reduced increases thereafter due to deficit reduction. Annual performance-based increases not only make sense from a pay-for-performance perspective, but would help somewhat to offset the inequities of reductions in the general increase.

OPM proposes to eliminate the use of fixed steps within pay grades for two reasons. First, to reduce the cost of returning PMRS managers and supervisors to the GS system by removing the current-law requirement that their pay be raised to the next fixed GS step if their GM pay falls between steps; second, to eliminate the necessity of raising employees' salaries to the next fixed step when a two-step promotion increase places them between steps in their new grade. While there is some justification for OPM's position, this proposed change will be seen by federal employees and their managers and supervisors as another in a long string of attacks on federal pay and benefits. Any equity in the proposal will disappear under the belief that this is just another way to save money at the expense of federal employees. We therefore oppose this part of OPM's proposal.

Should this change be adopted, however, it is essential that any money saved be maintained in the federal employee budget and be utilized for federal employee compensation. A portion of the savings, both current and ongoing, which would accrue could be used to pay the additional cost of the annualized salary increases we recommend.

Finally, we believe the special role and responsibilities of managers and supervisors should be recognized. These employees were carved out of the GS system to form the GM ranks under the Civil Service Reform Act in part because of their specialized positions. Under OPM's proposal, they will now be returned to the GS system.

We understand the philosophy of promoting the "team" concept in which all members are valued. The way SSA field offices operate is illustrative of this concept. At the same time, those who are currently PMRS employees perform key supervisory and managerial duties and responsibilities. The absence of any special recognition for managers and supervisors is a glaring deficiency. The PMRS Review Committee recommended two means of attracting and retaining employees for these supervisory roles: (1) an increase to 45 days of annual leave carryover and (2) payment of a supervisory pay differential.

If PMRS employees return to the GS system, it can become even more difficult to provide recognition of their special role and contribution. We strongly urge the payment of a supervisory differential to be paid to employees government-wide who meet appropriate criteria, which should be established by OPM and applied uniformly at all agencies.

Funding of the differential could be accomplished by reprogramming the significant savings which will result from the elimination of PMRS.

CONCLUSION

NCSSMA commends OPM for its successful effort to draw from diverse sources and perspectives and form a coherent proposal containing good ideas and new possibilities for improved performance management. While we recommend concrete changes, such as annualized performance-based increases for GS employees and the maintenance of fixed step increases as PMRS employees are absorbed back into the GS system, we believe the OPM draft provides a basis from which we can move forward cooperatively to develop a legislative proposal. We envision a strong role in both leadership and oversight for OPM as performance management is redesigned to move federal agencies toward better achievement of their varying and critical missions and better recognition and reward for the employees who are responsible for that achievement.

Ms. NORTON. Thank you very much, Mr. Duncan.

At least two of you have indicated a concern that speaks to the transition between the old and new system. If PMRS were to be replaced, how much time do you believe should be allowed for closing out the current system in transition to a new system?

Ms. BENSON. Well, at least a year plus whatever. In other words, if we allow PMRS employees to get their bonuses this year, there will be nothing—no system for them to go to, so you really need to extend it for another year and let them get their merit increases or whatever they are going to be allowed to get that year, and then transfer them to the next system. We don't have a system in place for them to go to otherwise.

Mr. DUNCAN. Certainly a year would be the maximum amount of time. Frankly, I think we would suggest a shorter period of time than that, perhaps 6 months, then implement the revised performance system for the last 6 months of most agencies' appraisal years.

I think our experience has indicated that the longer you give agencies, the more time they will take, that somehow the design of a new system, however long the period is, will still be mashed together within the last 2 or 3 months before the system has to be implemented. They can probably do it as well in 6 months as they can in a year.

Mr. MOYER. I would tend to agree with Bob's remarks, that the issue is somewhat problematic because of the amount of time that it would take to create a new system. The closeout of PMRS should take no more than 6 months for the transfer of currently covered employees into the currently existing system within each of their respective agencies.

But then the process by which they, along with others in their agency, work to come up with a new system should be one that has them all under the same system and one which they collaborate and discuss together. But a process, as Bob I think has certainly well indicated, should not be too long, or agencies will take every minute of time plus more. So perhaps something no longer than a year by which they would develop something, and then some time available after that for them to put it in place to implement, perhaps 6 months in addition.

Mr. DUNCAN. This is also one of the places where we believe that OPM should play a really strong role, kind of an enforcement role in making certain that agencies have designed their new system within whatever timeframes the legislation provides.

Mr. MOYER. If I might add to that, OPM's role should be above and beyond that of only an enforcer. It should be one that provides technical assistance to agencies by which it could provide suggested model packages which agencies could either use or adapt to their needs.

There are some innovative approaches already being considered in some agencies, and OPM should serve as a clearinghouse for those ideas so as to assure there is not a lot of reinventing of the wheel, and to be able to provide, particularly to smaller agencies that lack human resource professionals to the degree that larger agencies do, to provide that kind of technical assistance that spurs and stimulates innovation.

Ms. NORTON. Has PMRS aided communication between supervisors and managers and rank-and-file employees, in your view?

Ms. BENSON. Our survey showed—the question was, do you have a good understanding of what is expected of you as a result of PMRS? Fifty-five percent felt that PMRS fosters a good understanding, and 30 percent felt that it didn't foster a good understanding.

My experience is that supervisors who are worth their salt had always, even before PMRS, given employees their expectations, and employees really understood what they were supposed to do.

I think one of the problems with PMRS is that they still know what they are supposed to do, but then when it comes time for the rating period, if they don't get the rating they deserve, they feel betrayed and they feel there has been a breakdown in the communications from their end.

Mr. DUNCAN. PMRS plans within the Social Security Administration, I think, do a better job in many cases of communicating expectations to those who are covered by the system.

What I think is important is something that Helene has alluded to as well, the follow-through, to make certain that the performance plan communicated at the beginning of the year is continued in effect or the changes to that plan are fully communicated to the employees.

But yes, I think the communication is somewhat better and is still somewhat better than under the GS system.

Mr. MOYER. I would tend to agree with those comments, except to note that I am not sure in all cases it has effectively worked outside of PMRS as well as Bob might suggest. The degree to which distinctions between levels of performance, particularly in a five-level rating system, have really been detrimental to the clear and effective transmittal of feedback of performance review to a subordinate or to a team member.

Too often attention has been devoted to the fine distinction between exceeds and fully satisfactory or exceeds and outstanding rather than the bottom line of, am I doing my job, and how well can I improve.

And particularly when that performance feedback has been related to pay decisions, then the attention is shifted more to the pay impact than it is to the notion of self-esteem and continuous improvement.

Ms. NORTON. As one who continues to be a professor of law, isn't some of this inherent in the notion of being marked or being held accountable and knowing that that accountability will count and will be registered someplace? I am not sure we can get rid of all of that.

Mr. MOYER. I don't think we can either. As indicated, there is no right answer here, nor is there a perfect answer. We are dealing at the essence of this issue with human nature, with subjectivity, with perceptions. This is not something that can be entirely quantified in any case, no matter how much we may be moving to metrics and performance measurement and performance-based budgeting and other approaches that this administration is advocating through the MPR.

In essence, this is still a human dimension and one that relies upon accountability and the need to make a bottom-line decision: Are you cutting it or not?

Ms. BENSON. If I might add something here, most of the PMRS appraisals are subjective, and those agencies where there is more piecework, such as the Patent Office, where it is quantifiable, everybody knows they did so many cases or they didn't, they did 100 or 110 or whatever, and they know if they do this much, they will get this much afterward. Those systems work because it is all very clear and objective. There is no question about it. That isn't the case with most of the PMRS ratings. But if you can have a case like that, they can work.

Mr. DUNCAN. I think particularly in service agencies like the Social Security Administration it is often difficult, though we may try, to get away from subjective appraisals.

One of the things that has happened under PMRS, and I guess this is to an extent anecdotal, I have a friend who became quite cynical with the system because in one year he received an excellent rating with a rating score of 301. The next year with virtually identical performance, he was only 299, which was only fully successful.

Somehow we remain hopeful that a better solution can be found. As Bruce said, I don't think there is a perfect answer. But that is one of the reasons that we began to advocate the two-level appraisal system, because we were in search of a system which would not be considered damaging or morale busting both by the supervisors and the employees they supervise.

Ms. NORTON. I would like to get you to elaborate more on your view of employees' participation. Mr. King testified that employee participation would ensure equity and employee acceptance of agencies' performance management programs.

I would like your view of that, of that notion, and I would like your view of what you think employee participation means. OPM presented a rather murky general notion of it. What was clear is that it did not mean collective bargaining, for example, with unions. But they did not flesh out a very detailed notion of what such employee participation would involve.

I would like to hear your notion of what it should involve and whether you think that employee participation will ensure equity and the acceptance of the agency's performance management program.

Ms. BENSON. Well, right now the only employee participation that is that involved is that you are supposed to participate in the development of your standards. And, as I pointed out, that doesn't happen very often. So, even when it is required by law, it is not happening.

We think it is important that the employees participate in the design of the system—for management employees, through their management associations. If it is with unions, I can't imagine how employees could participate except through collective bargaining.

The second thing is that you participate in the implementation of it, that is, in the awards process. Right now, employees are not trusting. They are not trusting because they don't believe the awards have been awarded fairly. If you have performance review boards or peer review boards, such as the PMRS review committee recommended and was in previous proposed legislation, then the people who are participating in the system have a say about who is getting awards.

I think you will have a fairer system. But, you know, as I say, by law right now employee participation is required and it is not happening.

Ms. NORTON. Have a say in who is getting the awards?

Ms. BENSON. Right.

Mr. MOYER. I think employee participation, first of all, with respect to the unions may be certainly within the scope of collective bargaining in some respects. I will defer to the unions to press their case as far as they need and desire to. But I don't think we would necessarily suggest that some aspects are not within the scope of bargaining.

At the same time, as we look at the labor management relations and look to the fact that we all have interests that are built around a round table and not a square one, we ought to be looking at how we can, without respect to rank-and-file and managerial distinctions, work on a system within agencies and subcomponents of agencies that is responsive to what that agency and its components is trying to do, and how to inspire confidence and how to empower employees, particularly as we look at reinventing, to do their work in the best way possible and to reward individuals and teams where that is warranted.

I think a lot of this depends upon process action teams. A lot of it depends upon managers and others working together on a system that is responsive to their needs.

Mr. DUNCAN. To your question as to whether employee participation would ensure employee acceptance, I think it certainly would do a much better job than the system that we have now. I am not certain that anything can absolutely ensure that all employees are going to accept whatever performance management system is arrived at.

I believe from our standpoint we would see employee participation on a couple of levels. First, in the design of the system itself. We would hope perhaps for a more collaborative effort between executive management, management associations, and other representatives of management level employees, and unions and other representatives of regular employees. As Bruce said, we should all sit around the same table and have the same interests at heart.

Secondarily, then, after the system is developed, we would foresee the participation of individual employees in consultation with their supervisors at arriving at what their performance standards ought to be, how they ought to be measured and what their tasks ought to be for the following appraisal period.

Ms. NORTON. Ms. Byrne.

Ms. BYRNE. Thank you, Madam Chair.

I will submit some other questions, but I just have two that are pressing on my mind right now.

When Mr. Moyer was talking, he talked about agreeing with Mr. King's proposal that would fold in locality pay into this pay for performance. I was under the impression that locality pay had to do with location and comparability, not an individual, but the job.

Now, how can we use something like locality pay as a benefit if it is related to the job and not the individual?

Mr. MOYER. Because we are dealing with a matter that deals with 1 percent of the civil service that in the past is shown to be less than performing satisfactorily. Those who have not been up to snuff, who have an opportunity to improve their performance, or else they are out the door, and without regard to a distinction of whether it goes to the job or the locale, their performance ought to be held accountable in such a way that they are not perceived to be rewarded for performing in less than a satisfactory fashion.

The national comparability increase similarly can be said to relate to the national market to the extent that it relates to the employment cost index. So if you tend to believe that the locality increase is something that should not be linked, then you ought to then use that logic to apply to the national comparability increase as well.

We would suggest that that is not the proper benchmark, that is, that the avoidance of pay increase until the employee is back and performing satisfactorily is something that will uphold public confidence and internal credibility within the work force.

Ms. BYRNE. But my question is, how in all fairness can you tie something that has nothing to do with performance to performance? I mean, it is like trying to tie COLA's to performance. They have nothing to do with performance.

So why are we now making this jump and saying that whatever the job is, just by virtue of having this job, you are entitled to this, but we are going to expand that and say, if we are going to link everything you get beyond the job to your performance, whether it has anything to do with your performance or not?

Mr. MOYER. Well, I don't think we would certainly take a position that that linkage should extend to all benefits that an employee receives, for example, health insurance or anything of that nature.

Ms. BYRNE. Right.

Mr. MOYER. But with regard to a pay increase, a pay increase, that period during which an employee is not performing satisfactorily should not be an eligible time in which the employee receives a pay increase. Once the employee is back and performing up to snuff, then eligibility for the pay increase should kick in. But not until that time.

Ms. BENSON. I think you make a very good point. On the PMRS review committee, I think that we did agree that if employees were unsatisfactory they wouldn't get the annual ECI and locality pay increase. We agreed with it, at least I agreed with it, because it was only 1 percent of the employees. But I was never entirely comfortable with it.

I do think that it is mixing up apples and oranges. I don't think employees should be punished that way. If they are going to wind up being fired, it is moot anyway, and if they are not going to be fired, as you say, if the comparability increase is not related to performance, there are already ways of dealing with that. For one thing, employees are not supposed to get a step increase if they are not performing satisfactorily. I think that is sufficient.

So I think you make a very good point. If PMA has that in its plan, which I don't think we do, we probably put it in for the same reason that in the PMRS review committee we agreed with it, simply because it was only 1 percent, it didn't seem very important.

Mr. MOYER. If I might just respond to that, we do think it is very important, because it deals with the credibility and the performance and the public's perception of the Federal Government.

We would agree with the remarks of the OPM Director last week. He suggested that to tolerate, to be perceived to tolerate less than satisfactory performance by which a pay increase becomes automatic, provides an opportunity for every cheap shot artist in this city to take a shot at the Federal work force.

Mr. DUNCAN. We would certainly envision that any performance management system designed through collaboration through employees and management as a result of this proposal would include a mechanism for assisting those employees whose performance is unsatisfactory in raising their performance.

Like Bruce, I think we would have some difficulty in publicly defending a system where an employee has been found to be unsatisfactory, is going through a performance improvement plan process, but at the same time receives a pay increase. We would have difficulty with that.

Ms. BYRNE. Well, I guess my point with Mr. King is that when you are giving merit pay for performance bonuses and pay increases, there is a nexus between the employee and their actions and the increase; and that if you have a job that is due locality pay, this job is due the locality pay regardless of what that employee does. It is tied to the availability of that particular profession, the pay scale of that particular profession, and the geography of that particular profession. And it is not anything to do with performance.

And I think you could go ahead and hold out health benefits, why not? You could hold out anything. You could actually, you know, wipe out life insurance contributions. You could do anything you wanted. But it doesn't have anything to do with performance.

Well, I will get on to another topic. When we were talking about trying—with Chairman Norton, trying to figure out how we could have our hearings and talk about alternatives to ways to save money so we could make sure that we got a little less of a hit in this budget cycle, several Federal employees came to me with the suggestion that we start looking at paying bonuses out of year-end savings, that we create an incentive system for managers not to spend all their money at the end of the year, and that that pot of money be used for merit pay increases and bonuses and step increases. Could I have your comments on that?

Mr. MOYER. If I might, I think that is an excellent idea. In fact, that broader concept of encouraging managers and the work force to restrain spending, particularly at the end of the year, ought to be encouraged as much as possible, but in order to do that there ought to be ways, perhaps in certain accounts, that those savings roll back into operations for capital spending for bonuses and awards and other ways that help the agency and its employees do their work.

That is a fine proposal, Congresswoman, and FMA would certainly give its full support to an initiative like that.

Mr. DUNCAN. The Social Security Administration probably 3 years ago conducted a series of experiments in different areas of the country that were called gain sharing. And the concept was twofold. In the first place, the management of individual field offices or areas was given greater flexibility in how their money could be spent. That certainly was a positive result of that. Almost everyone who went through that process was in favor of it. The second part was the gain-sharing part, that a portion of the money saved during the year was given to employees as bonuses.

And I think the experience was that during the first year that really worked pretty well, because we all know that in our operations there are places where money can be saved. During the second year it became more difficult to find those areas of savings. They had already been used up in the first year and the money was not rebudgeted during the second year.

So I think it is an idea that certainly has merit. But it is something that may not be useful in the long term. Particularly as budgets from the national level become tighter and tighter, it becomes more and more difficult at the local office level, from which I am speaking, to find those kinds of savings.

So we could end up with a system where several years down the road it would be simply impossible or extremely difficult to give employees merit-based increases or awards or bonuses or anything like that, simply because the savings were not there.

Ms. BENSON. I agree with the concept of gains sharing, but if a particular agency or subgroup manages to save money and they can use that money to give their employees more than what other employees in other agencies are getting, I have a little trouble with that, because it might give agencies the incentive to ask for more than what they need so they can have some left over. I think you have to be a little careful about this.

I agree with the suggestion afterward, I know we have to do something about agencies turning back their money when they don't need it but not being punished by having their budget cut the next year. I am not sure that would be the way.

Ms. BYRNE. That is all I have at this time, Madam Chair.

Ms. NORTON. Thank you.

I want to thank all three of you, Mr. Moyer, Ms. Benson, Mr. Duncan. Your testimony has been essential and we very much appreciate your coming forward today.

I would like to now call the next panel. Mr. John Sturdivant, president, American Federation of Government Employees; Mr. Robert Tobias, president, National Treasury Employees Union; Mr. Robert Keener, president, National Federation of Federal Employees; Mr. Dennis Roth, vice president, Federal Eastern Region, International Federation of Professional and Technical Engineers.

I am very pleased to welcome all four of you gentlemen this evening. We have been waiting to hear from you.

We will go first to Mr. Sturdivant.

STATEMENTS OF JOHN N. STURDIVANT, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION; ROBERT S. KEENER, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES; AND DENNIS ROTH, VICE PRESIDENT, FEDERAL EASTERN REGION, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS

Mr. STURDIVANT. Thank you, Madam Chair.

Before I get into my summary, which has been summarized many times, I want to take the opportunity to thank you and your colleagues, Ms. Byrne, who is my representative, and all of the other members of the subcommittee for your stellar work in trying to ease the hit and ease the turmoil by the proposals from the administration as far as pay is concerned, and also to protect locality pay.

I just can't express how important that is, to continue to try to maintain an objective mechanism for establishing and setting Federal pay, that everyone understands and that has credibility, and that Federal employees can believe in and expect.

I would just submit that some of the things coming out of OPM, especially where they relate to locality pay, such as what Congresswoman Byrne just talked about, performance or what have you, and locality pay, are simply part of the same old pattern that we have seen in the past couple of weeks, to try to continue to raise doubts, to try to somehow load it down with other potential problems in the hopes of dragging it down and destroying it. And we would certainly urge and hope that your outstanding and stellar support continues, because we think it is vital.

Mr. STURDIVANT. On behalf of the more than 700,000 Federal and District of Columbia employees represented by our union, I thank you for the opportunity to testify here today on the subject of pay and performance.

The 1990 pay law directed OPM to establish a joint labor-management committee to recommend ways to strengthen the link between pay and performance for General Schedule employees, and we labored long and hard, I and my colleagues; and we produced a report that incorporated the views of both unions and managers on what types of pay-for-performance schemes are likely to be effective and what we saw as being doomed to failure.

The report is remarkable for the amount of agreement on what is usually an extremely contentious issue between labor and management. So AFGE was both surprised—we continue to be surprised—and somewhat—and really disappointed over OPM's recent policy proposals regarding the establishment of pay-for-performance programs.

In fact, as Yogi Berra has said, it seems like this is deja vu all over again. I would liken it a little differently to, I thought I had a good dream November 3; but somehow, as that very pleasant dream progressed, it turned into a nightmare that somehow I can't wake up from. And I hope somebody wakes either me up or somebody else up pretty soon, because this is going to be a very long 3½ years.

In a number of ways, these new proposals to reform the performance evaluation system for Federal employees are in direct conflict with the recommendations of the FEPCA-inspired joint study of the issue. But there are some aspects of the proposals which we can support. First is the idea that flexibility and design will be a crucial factor in the success of any attempt to link pay and performance.

And second is the idea of linking performance evaluation and the rewards to group and/or organizational achievements. And this is consistent with the findings of the FEPCA study, and it has AFGE support. Although awards, which focus on the accomplishments of individual workers, are sometimes appropriate, programs which provide group awards have been successful in encouraging effective teamwork and cooperative relations in several demonstration projects in which AFGE has participated.

But we do have some problems in the details of the OPM proposal. The first problem is OPM's insistence that all new performance management systems be cost neutral. OPM envisions allowing agencies to establish programs which would enable them not only to withhold within-grade increases but also reduce base pay for employees who do not perform up to newly designed agency specific standards.

AFGE opposes these proposals on several grounds. First, we believe that performance awards just consist of primarily positive financial incentives, and experience from both the Federal Government and the private sector shows that much better results are achieved with the carrot as opposed to the stick.

Furthermore, AFGE believes that base pay is an attribute of a position rather than an individual. This distinction is absolutely crucial to the maintenance of horizontal equity throughout the Government. It is also crucial to employee support for any new system.

You know, let me just digress a minute and just talk a little bit about this myth or this whole issue of, it is so hard to fire Federal employees.

First of all, I would submit that those managers who are having problems firing Federal employees go talk to those managers that are putting my local union presidents on the street, because those folks seem to have gotten it down very efficiently. And I can show you chapter and verse, time after time, where individuals have been outstanding until they became involved with the union and in the space of the time of that performance suddenly turned and suddenly were unsatisfactory.

So there is some system that is being used very effectively and is costing us a whole lot of money to get these people back on the rolls. Somebody is firing somebody out there. And I would suggest that those folks who can't figure out how to do it go talk to the folks who are doing it, to my local leaders, because they are doing it very well.

Federal workers won't support any new system which is financed with their own salaries. But in spite of much rhetoric on the necessity for participation and cooperation from workers, that is the implication of OPM's proposals.

Quite frankly, you know, we are not interested in being outreached to; we are not interested in being consulted with; and we are not interested in being made to feel good. We are interested in full partnership. I want to talk about that a little bit later on.

But even if cost-neutrality cannot be avoided, new performance-based pay systems, which go beyond base pay and the already performance-based within-grade increases, can be used for this purpose.

There are several equity issues which must be addressed with the idea of a multitude of agency-specific plans. All agencies must remain responsible for achieving fair and equitable treatment of employees and for meeting their equal opportunity obligations in both the design and implementation of pay-for-performance systems. This is a high priority for AFGE. We believe that OPM should require each program it approves to collect data on distribution of performance ratings and awards, and adverse impact on any Federal class of employees should be grounds for discontinuing the system.

The area where AFGE has its deepest disagreement with the OPM proposals concerns a format for employee, "input into the design and implementation and evaluation of new systems for performance evaluation and performance-based awards."

AFGE believes that two issues will decide whether new systems succeed or fail: financing and collective bargaining. We contend that it is absolutely crucial that the, "employee input" which OPM claims to welcome and which it insists will be a requirement for approval of any new system issue from the collective bargaining process. We want to be full partners. We are not interested in being consulted. We are not interested in having our views taken and being carefully considered and then having the outcome the same as it was before.

We want to sit down as partners and help determine what the problem is. We want to sit down as partners and help determine what the solution is. And then we want to sit down as partners and help you determine how you implement the solution that we have jointly determined reaches the problem. And we believe we can get to that process through collective bargaining and no other way.

OPM seems to believe that simple consultation with employees outside the legal confines of collective bargaining is a preferable way to communicate with workers. But meaningful worker input can only be assured when workers have the legal protections afforded by the collective bargaining process.

Collective bargaining is the only effective way workers and management can work cooperatively to fashion new performance management systems. We recognize the Federal labor law would have to be amended to make this a mandatory subject for bargaining. The adversarial nature of current labor management relations renders the idea of unstructured, cooperative, and meaningful negotiations over performance evaluation and awards systems an unattainable fantasy.

We also question the timing of the implementation of these new programs. Locality pay has yet to be fully implemented. We believe it is premature to begin a far-reaching, performance-based pay system until the locality system is fully under way and can be evaluated on its own.

Finally, AFGE believes that the most effective strategy for improving performance would be to follow the philosophy espoused by President Clinton and Labor Secretary Reich, and invest in the people who work for the government. The idea is that performance is largely a function of investment: investment in the workplace, in people, and in the latest technology.

AFGE believes that peak performance occurs when there is a good collective bargaining relationship or where an employer treats workers as partners, gives them responsibility and the means to meet those responsibilities. This is the type of change AFGE worked for and hoped for when we worked to get a new administration to this town. And it is the type of change we believe will produce the best performance results.

Cost-neutral plans which emphasize punitive measures are not consistent with this philosophy and are not consistent with our efforts in the last election.

This concludes my testimony. I will be happy to try to answer any questions that the members of the subcommittee may have.

Thank you.

[The prepared statement of Mr. Sturdivant follows:]

Prepared Statement of John N. Sturdivant, President, American Federation of Government Employees

Madame Chair and members of the Subcommittee: My name is John Sturdivant, and I am the National President of the American Federation of Government Employees, AFL–CIO (AFGE). On behalf of the more than 700,000 federal and District of Columbia employees represented by our union, I thank you for the opportunity to testify here today on the subject of pay and performance.

The 1990 Federal Employee Pay Comparability Act (FEPCA) directed the Office of Personnel Management (OPM) to establish a joint labor-management committee to recommend ways to strengthen the link between pay and performance for General Schedule employees. This committee produced a report, "Strengthening the Link between Pay and Performance" in November 1991 (hereinafter "the FEPCA study") which incorporates the views of both unions and managers on what types of pay for performance schemes are likely to be effective, and what is doomed to failure. This report is remarkable for the amount of agreement on what is usually an extremely contentious issue between labor and management.

AFGE was surprised and disappointed over OPM's recent policy proposals regarding the establishment of pay for performance programs. In a number of ways, these May 1993 proposals to reform the performance evaluation system for federal employees are in direct conflict with the recommendations of the FEPCA-inspired joint study of the issue. The FEPCA study was explicit about the subjects on which union members' views diverged from those of management: AFGE contends that the introduction of a series of newly-designed performance evaluation and award systems will only be successful if they are created in the context of collective bargaining. But on the central issues of funding, protection of base pay, horizontal and vertical equity, and distributional impact, where both unions and management agreed in the FEPCA report, OPM was either deliberately vague or has proposed policies which contradict its conclusions.

There are some aspects of the recent OPM proposals which AFGE can support. The FEPCA report stated clearly that for an employer as large and diverse as the federal government, flexibility in design would be a crucial factor in the success of any attempt to link pay and performance. At the same time, however, it was recognized that certain safeguards would have to be present in each program to assure equity. The OPM proposals are essentially true to this principle, stressing the goal of allowing agencies, and even departments within agencies, the freedom to develop programs which reflect their unique cultures and missions.

OPM also has set forth as a central goal of performance recognition system reform the idea that rewards and evaluations should be linked to group and/or organizational achievements. This is consistent with the findings of the FEPCA study, and has AFGE's support. Although awards which focus on the accomplishments of individual workers are sometimes appropriate, programs which provide group awards have been successful in encouraging effective teamwork and cooperative relations among workers. Systems which focus too strongly on individual performance have the tendency to undermine organizational effectiveness, as workers see one another as competitors for scarce merit-pay dollars.

Thus AFGE supports these two broad themes which are evident in the OPM proposals and are consistent with the principles set forth in the FEPCA study. The details on how OPM would like to see these ideas implemented form the basis for our criticism.

FUNDING PERFORMANCE-BASED PAY

OPM has two proposals relating to funding performance-based pay programs which we find problematic. The first is their insistence that all new performance management systems be cost-neutral. Indeed, OPM states that this criterion will be a key factor in its approval of new performance evaluation and reward systems which, require waivers of existing law and regulations.

OPM envisions allowing agencies to establish programs which would enable them not only to withhold within-grade increases, but also to reduce base pay for employees who do not perform up to newly-designed, agency-specific standards. Under the requirement of cost-neutrality, we presume that the money saved in a system such as this would be reallocated to employees in the agency who performed exceptionally well.

AFGE opposes these proposals on several grounds. First, we believe that performance awards should consist of primarily positive financial incentives. If the idea is to encourage workers to work as efficiently and diligently as possible, experience from both the federal government and the private sector which is well-documented in the FEPCA study shows that much better results are achieved with the "carrot" as opposed to the "stick."

Furthermore, AFGE believes that base pay is an attribute of a position rather than an individual. The federal pay system assigns a classification and an attendant salary rate to a set of job responsibilities, not to an individual. This distinction is absolutely crucial to the maintenance of horizontal equity throughout the government. It is also crucial to employes support for any new system of performance evaluation and performance-based pay increases.

Federal workers are unlikely to support to any system which is financed with their own salaries. But in spite of much rhetoric on the necessity for participation and cooperation from workers, that is the implication of OPM's proposals. The FEPCA study states clearly that "uniformity and predictability in base pay adjustments" are central not only to the perception but also to the reality of fairness of any pay-for-performance system.

AFGE's position on this issue if that even if cost-neutrality cannot be avoided, new performance-based pay systems should consist of awards which go beyond base pay and the already performance-based within-grade increases. In the absence of new funding, they should be financed by means of authority to reprogram spending within an agency so that cost-savings outside the category of salaries and expenses can be used for this purpose.

EQUITY IN PERFORMANCE-BASED PAY SYSTEMS

There are several equity issues which must be addressed in the policy guidelines OPM provides to agencies for the design of their individual systems. Full consideration must be given to the diversity of the federal workforce. Objective criteria must govern the distribution of performance-based awards so that favoritism and non-performance related factors will be prohibited from influencing distributions.

AFGE wants all federal agencies to remain responsible for achieving fair and equitable treatment of employees, and for meeting their equal opportunity obligations in both the design and implementation of pay-for-performance systems. This principle was also stated clearly in the FEPCA study, and is a high priority for AFGE. We believe that OPM should require each program it approved to collect data on the distribution of performance ratings and awards, and that evidence of adverse impact of any class of federal employees should be grounds for discontinuing the program.

AFGE concedes that flexibility in design is a rational policy for performance-based award systems in the federal government due to its size and diversity. But the principle of equity cannot be sacrificed on its behalf. The strength of the current system lies in the delicate balance between these two principles. Basing within-grade increases on performance allows supervisors to set forth criteria which may be unique to a particular job as the standard for satisfactory performance. But at the same time, the performance requirements for workers throughout the government who have identical job descriptions are consistent.

The value of awards in terms of base pay and percentage increases are also the same throughout the government. The result is that two GS–5's with the same job descriptions who work in different agencies of the government are treated similarly. But another GS–5 worker, whose job is unique to a particular agency, can be evaluated according to job-specific criteria, and at the same time be rewarded in a way that is similar to his or her fellow GS–5 employees. Likewise, employees up and down the General Schedule receive equivalent percentage awards when they meet performance standards, providing the system with the vertical equity which is so important to employees' perception of fairness in performance-based systems.

AFGE does not contend that no other system can achieve this balance between flexibility and equity of treatment. We simply want to recognize that the current system has strengths which should be retained in the development of new performance-based award systems.

EMPLOYEE PARTICIPATION IN SYSTEM DESIGN

The area where AFGE has its deepest disagreement with the OPM proposals concerns the format for employee input in the design and implementation, and evaluation of new systems for performance evaluation and performance-based awards. AFGE believes that two issues will decide whether new systems succeed or fail: financing and collective bargaining. We contend that it is absolutely crucial that the "employee input" which OPM claims to welcome, and which it insists will be a requirement for approval of any new system, must issue from the collective bargaining process.

This is the area where labor and management had distinctly different views in the FEPCA study. While OPM under Director King has shown no hostility toward the collective bargaining process, OPM seems to continue to believe that simple "consultation" with employees outside the legal confines of collective bargaining is a preferable way to communicate with workers in the area of performance evaluation and performance awards.

Meaningful worker input can only be assured when workers have the legal protections afforded by the collective bargaining process. AFGE believes that collective bargaining is the only effective means by which workers and management can work cooperatively to fashion new performance management systems. We recognize that federal labor law would have to be amended to make performance appraisal and award systems a mandatory subject for collective bargaining.

AFGE firmly believes that the adversarial nature of current labor-management relations renders the idea of unstructured, cooperative and meaningful negotiations over performance evaluation and award systems an unattainable fantasy. We believe just as strongly that an expansion of bargaining rights that requires cooperative solutions to difficult issues such as dispute resolution is the answer to assuring employee support for new performance management systems.

Full-scope collective bargaining on this and other issues assures employees that their concerns and interests will be addressed formally. A collectively bargained contract also provides a more efficient means of settling the grievances and disputes which inevitably arise than protracted and expensive litigation which stems from the current system. Workers' input will not be an afterthought or a nicety, but a required and essential element of program design. AFGE believes that such a requirement to develop new programs cooperatively will be the central factor which determines their success or failure.

CONCLUSION

In addition to the specific areas of concern I have discussed, AFGE questions the timing of implementation of these new programs for performance evaluation and performance-based awards. The central feature of FEPCA, the locality-based pay system, has yet to be fully implemented. We believe it is premature to begin a far-reaching performance-based pay system until the locality system is fully underway and can be evaluated on its own.

We understand that OPM Director King is motivated by a desire to improve the image of federal workers among the public. He has stated that we need a system that addresses the performance problems of the 1 percent of federal employees whose work is unsatisfactory but who give all federal workers a bad name. AFGE applauds this. But we also believe that the workers' probationary period gives supervisors ample opportunity to determine whether an individual has the capacity and willingness to perform the job for which he or she was hired. After that, the cause of inadequate performance should be probed: is it a result of personal problems, could the person benefit from more training, is there a failure of communication concerning expectations? Or is the supervisor at fault for failing to provide the means necessary for that employee to perform satisfactorily.

We believe that the image of federal employees would be elevated most effectively by public acknowledgement of the fact that productivity in the federal government has risen every year for the past decade and a half despite relentless budget cutting. The federal government could show its pride and commitment to its workforce by following the philosophy espoused by President Clinton and Labor Secretary Reich and invest in its people. This philosophy is based on the belief that individual and organizational performance are largely a function of investment—investment in the workplace, in people, and in the latest technology.

AFGE believes that peak performance occurs where there is a good collective bargaining relationship, where an employer treats workers as partners, give them responsibility and the means (technological and financial) to meet these responsibilities. This is the type of change AFGE has hoped for with the Clinton administration, and it is the type of change we believe will produce the best performance results. Cost-neutral plans which emphasize punitive measures are not consistent with this philosophy.

This concludes my testimony. I will be happy to answer any questions the members of the Subcommittee may have.

Ms. NORTON. Thank you very much, Mr. Sturdivant.

Now, my colleague has to go for a vote. You gentleman are luckier than the people of the District of Columbia, because these two votes are in the full House, which means that the Chair can remain here and continue to take testimony.

Most of the votes during this period, usually until the end of the day, are in the Committee of the Whole, in which case you would be left to wait. So you have profited from the fact that I don't have to go to the House now, and we can continue to receive testimony, because I do not participate in the next two votes.

I am very pleased to move on to Mr. Robert Tobias to testify next.

Mr. TOBIAS. Madam Chair, unfortunately you do not get the opportunity to vote when the full House votes. But that certainly has not, in any way, lessened your commitment to support the problems that Federal employees face in your district and across the country.

I really appreciate the energy and the effort and the creativity that you have brought to the task. Right from the beginning, with your idea to hold public hearings outside of this room, served to highlight that this was a problem that had a broad reach far beyond the beltway, it was an issue that touched many people and many Members of Congress.

And then when the crunch came, you stood up and helped us. And I really, really appreciate your commitment. There are many who talk, and there are fewer who actually walk; and you have done both. And I appreciate it.

I also appreciate your support for scheduling these hearings on this issue of performance management. It is a difficult problem. It is a problem which has been studied and restudied, and I, too, am extremely disappointed in the proposal that OPM brought forth. It is, for the most part, a rehash of issues and ideas that have been rejected in the past, and for good reason. And yet, we see OPM pulling out the thoughts of the past and attempting to package them in a new proposal.

The one idea that we can support is the idea of delegating authority to agencies to devise new performance management systems. This is the first time that OPM has truly recognized that there is a different culture among agencies, and that what works to motivate employees in one agency will not necessarily motivate employees in another agency. So we think this is sound.

But we question the role that OPM reserves to itself under its proposal. It says that it will have approval authority. And I am very, very concerned about that. I think it is outrageous to think that OPM can have the wisdom to devise personnel policies and performance management for 2.3 million Federal employees. It is silly for us to divorce mission responsibility from personnel management authority. And this is the idea that OPM continues with its proposal.

But I also think that, in the context of delegating this authority, Director King's testimony said that participation and input would satisfy the needs of employees is totally specious. OPM and Director King forget that the existing law as currently drafted in 1979 requires input, and it requires input on an annual basis. And we know there has been no input; there has been no consideration; there has been no discussion. And yet we hear Director King say that we should perpetuate this system with the existing law. The language in the current law is in 5 USC 4301 and 4302. So we just hear more of the same.

I had the opportunity last Friday to participate with Vice President Gore in the Reinventing Government summit. And every single, high-performing company and high-performing State or local government talked about creating a partnership, a true partnership with the unions that represent employees. And they talked about partnerships in the context of bargaining. That is what the partnership was. And yet we don't see OPM taking the step to suggest that these performance management systems be the subject of collective bargaining. We believe that that is critical to the success of the proposal.

We oppose OPM's suggestion that locality pay be subject to evaluation. Locality pay is base pay. It is not subject to merit. It is base pay. And that issue was fought in 1990. It was proposed by OPM. It was proposed by the Bush administration; it had been proposed by the Reagan administration; it had been proposed by Donald Divine and each time had been rejected.

I was stunned to see this proposal resurface once again as part of OPM's proposal a few weeks ago. I think it is highly outrageous to suggest that locality pay be based on performance and then the President, at the same time, say, OK, you have worked hard for a year for this pay; but I don't have the money to pay you; and, therefore, you are not going to get your merit pay. I think that creates a real tension and a real expectation that every President can't fulfill. So I think that it is an idea and an issue that has been rejected for good reason. And I think it ought to be rejected once again.

Finally, I don't think there is any real rationale to alter the 10-step progression system that is proposed by OPM, other than to save some $80 million by not putting the PMRS employees on a step system, and as a result of saving the $80 million for the PMRS folks, the people we represent would lose $60 million over the next year.

So, in order to avoid a loss for high-paid folks, our people would lose $60 million and suffer a cut in pay. I think that the system for this proposal is misconceived, it is misdirected. And in an atmosphere where we are scrapping to stay alive, the idea of, over the next year, asking Federal employees to lose another $60 million in the context of receiving promotions is something that ought not be accepted.

So, Madam Chair, I think that the one idea that is worth really working on is delegating authority to agencies but making sure that we can bargain, and not discuss, and not engage in collective begging is the idea that ought to surface and resurface and be enacted.

Thank you very much.

Ms. NORTON. Thank you very much, Mr. Tobias.

[The prepared statement of Mr. Tobias follows:]

PREPARED STATEMENT OF ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Madam Chair, Members of the Subcommittee, thank you for inviting me to present the views of the National Treasury Employees Union on OPM's proposed performance management changes.

Before I address these proposals, however, I would like to once again thank you, Madam Chair, for your hard work and tenacity on behalf of federal workers, especially with regard to the FY 1994 budget. Those of us who fought so hard to enact the Federal Employees Comparability Act in 1990 are still somewhat stunned by the Administration's proposals to delay and emasculate it. Your efforts to protect the integrity of the law and implement it in 1994 are deeply appreciated. And I pledge that NTEU will continue to assist you in any way we can to ensure the future viability of FEPCA.

While NTEU members have not been covered by the Performance Management Review System currently in effect for managers, we do believe that the findings of various federal managers' groups and the GAO with regard to the system's shortcomings raise serious questions about the wisdom of its continuation. The main complaints about the PMRS system are that it is too rigid, that there is not enough money to motivate employees and that it has been ruled, to a large extent, by favoritism. If the government is to move to a new system it must work vigorously to avoid these pitfalls.

At the outset, NTEU questions the need to rush into a new performance management system for all white collar government workers because the system that currently applies to a relatively small number of federal managers is set to expire on September 30th. Careful study should be given to changing the entire federal government's performance management system.

Some of the changes OPM proposes, however, NTEU strongly supports. For instance, NTEU believes that agencies and their "missions" and "cultures" are very difficult throughout the federal government. We, therefore, believe that the best performance management system for one agency may not be the best for another and that flexibility for agencies and workers' representatives in designing and implementing innovative systems is critical. We have two concerns, however, about this aspect of OPM's proposal. First, we question OPM's role in "approving" individual systems and second, we believe that it is imperative that unions be explicitly empowered to negotiate all aspects of these systems.

We are unclear about what OPM's role would be under this new system. While Director King's testimony indicated that agencies could seek OPM approval for alternative performance management systems, it is unclear what criteria OPM would use to approve or deny the use of such systems. We question the need for OPM to retain veto authority if employee unions have full bargaining rights in the process.

But whether federal employee unions will have full bargaining rights under this proposal is very much in question. NTEU does not believe that federal employees will have equal standing in this process unless the management rights clause of the Civil Service Reform Act is amended to ensure that employees' representatives are full partners in creating new performance management systems. "Input" and "involvement" are nice, but federal employees have learned the hard way that they need to have the legal right to bargain in order to be treated as equal partners in agency decision-making.

It is a mystery to me why OPM is not willing to end any question of bargaining rights in this arena by proposing an amendment to the management rights clause on this issue, when it claims that it wants federal employees and their representatives to be equal partners in developing and implementing new performance management systems. Unless there is equal empowerment between management and labor the talk of equal partnerships is empty rhetoric and the trust and mutual respect necessary for federal employees to work with this new Administration on real change will never be achieved.

Another very serious problem for us in OPM's proposal has to do with applying performance standards for GS employees for the first time to annual and locality pay adjustments. While OPM describes the only standard to be met to receive these adjustments as acceptable vs. unacceptable, or pass/fail, once performance standards are applied they can easily be raised. If federal employees are not performing at an acceptable level, they should not be in their jobs and managers currently have the tools to remove them. The fact that managers are often inept at doing so is no reason to change the system.

The locality and annual adjustments under question were just designed in 1990 as part of the Federal Employees Pay Comparability Act. The standard of pay-setting employed in that law was comparability with the private sector, taking into account, for the first time, geographic variations. The question of subjecting these adjustments to performance standards was considered and rejected during negotiations on FEPCA.

It is particularly galling that this Administration, which has proposed not paying either of these adjustments in 1994, is proposing using them to reward and punish good and bad performers. Pay freezes and cuts happen and will continue to happen based on the way our system of government works. What kind of signal would it send if employees were told that whether or not they receive annual and locality adjustments would depend on their performance and they perform exceptionally well and Congress freezes their pay anyway? Will that motivate employees? Will it increase accountability? Absolutely not. It will make a distrustful and skeptical workforce even more cynical about the prospects of having their work evaluated and rewarded fairly.

Career ladder and step increases are currently subject to performance standards for GS employees. Unlike annual and locality adjustments they have rarely been subject to the kind of annual budget cutting vagaries such as those we have seen this year. NTEU believes that only these increases should be subject to any new performance standards.

OPM's proposal would also change the current fixed 10 step progression in each grade. While we appreciate OPM's indication in its testimony before this Subcommittee that the $60 million in savings from GS workers' pay anticipated in its original proposal would be restored, we are unclear as to how that would work. More importantly, however, we are not sure what the reasoning is for so drastically altering the 10 step system beyond making it easier to re-absorb those currently covered by the PMRS system. There are many arguments, pro and con, as to why fixed steps or broad pay bands might be better, but we are unclear as to what policy objectives OPM is pursuing here other than saving $80 million by not having to move PMRS workers back into one of the ten existing steps. A change of this magnitude needs to meet some more meaningful policy objective.

Another concern NTEU has with the OPM proposal is that Director King's testimony stated that agencies would be able to seek approval of cost-neutral alternative performance management systems. One of the recurring problems associated with PMRS was that the money associated with performance awards was not enough to increase motivation. We believe requiring cost-neutrality will doom these systems and amounts to not learning obvious lessons from mistakes made under PMRS. Under a cost neutral scheme the only way for one employee to make more is to take it away from a co-worker, hardly the basis for fostering the cooperation necessary to maximize productivity. If monetary incentives are going to be tied to performance more money needs to be available and base pay needs to be adequate at the outset. That means full implementation of FEPCA should be achieved before moving to pay for performance schemes.

While OPM's proposal could be made acceptable with some fundamental changes, the implementation scenario I perceive from its initial draft is totally unacceptable to NTEU. Under OPM's draft, immediately upon enactment, performance management legislation would subject locality and annual pay adjustments to performance standards for the first time. It would also change the 10 step pay progression within grades. Then it would allow agencies, with input from employees' representatives, that does not guarantee collective bargaining rights, to propose cost-neutral performance management systems that OPM could approve or deny based on unknown criteria. What a deal!

Although I and those federal workers I represent, have been disappointed by several actions of this new Administration, not the least of which was its proposal to put off implementation of locality pay, which was virtually our only significant accomplishment during the Reagan and Bush years, I retain a scintilla of hope. I believe that this Administration wants real change in the way this government conducts its business. And so do I. And so do the rank and file federal workers that I represent.

But my biggest fear is that the possibility of establishing the trust necessary to accomplish real change is diminishing every day. OPM's proposal under consideration today speaks of the importance of partnership and participation with federal employees and their representatives, yet not only were we not involved in the preparation of this proposal, as I understand it, we were only briefed on it because this Subcommittee requested that OPM brief us.

Resolution of the issue before us today very likely could be accomplished by true cooperation between federal employee organizations and representatives of this Administration. And many more important issues needing resolution will likely be put forth when Vice President Gore issues his report based on his National Performance Review. But if some seeds of trust are not sown soon, the possibility of true cooperation necessary to achieve real change will pass us by. And not only will this Administration and federal unions and workers lose an historic opportunity, but so will our country.

I know, Madam Chair, that you are acutely aware of the situation I describe and that you have tried hard to take its message to this Administration. I sincerely appreciate those efforts and I pledge to continue to hold out my scintilla of hope as long as you agree to continue your efforts. Thank you.

Ms. NORTON. Mr. Keener.

Mr. KEENER. Thank you, Madam Chair. I was in your office the day that the locality pay issue was debated and the vote was taken, and I was proud of you. I can only echo what my brother union presidents have said: We are proud of you and the job that you have been doing for all of us.

We want to thank you for providing the National Federation of Federal Employees the opportunity to discuss the reauthorization of Performance Management and Recognition System, PMRS, and the Office of Personnel Management's proposal to create a flexible and unified performance management system covering all Federal workers.

The birth of the pay-for-performance movement in the Federal sector is due, in part, to the bureaucrat bashing campaign rhetoric which began during the 1976 Presidential campaign and continues even today. According to early critics, Federal employees were not productive and did not measure up to their private sector counterparts. Performance appraisals and pay-for-performance were needed to correct that situation. It wasn't true then.

After passage of the Civil Service Reform Act in 1978, pay experiments were begun for Federal managers, supervisors, and SES people. In 1981, the merit pay system was created to place managers in the GS–13 to GS–15 level under a pay-for-performance system.

By 1984, the program was declared a failure as it did not demonstrate a relationship between pay and performance. Critics also claimed that the MPS was underfunded and that ratings were arbitrarily modified. The program established for the SES was also a failure, as its overly generous bonuses nearly depleted the entire fund in a short period of time.

Political factors also contributed to the downfall of these programs. Beginning with the Reagan administration, as the National Research Study Council on pay-for-performance documents, OPM's human resource function was also changed. Most planning, evaluation, and research activities were eliminated or drastically reduced. OPM became more concerned about the administration's political agenda and less concerned about human resource issues.

The Performance Management and Recognition System was established in 1984 with high hopes of overcoming the problems associated with the merit pay system. As we heard in testimony presented last week by OPM and GAO, and as documented by reports from the Pay-For-Performance Labor-Management Committee, the PMRS Committee, the National Research Council, the Merit Systems Protection Board, and other organizations, PMRS has been deemed a failure. Managers express little confidence in the ratings, rating inflation is rampant, and accusations of predetermined or forced distributions of ratings to control payout obligations are very common.

Although we do support the administration's goal of making our Government more efficient, NFFE has strong objections to OPM's latest attempt to reform the system. Experimenting with the pay of our workers does not, under present circumstances, promote efficiency, especially with an administration that has frozen pay and refuses to implement locality pay as scheduled by law. OPM appears to be rushing into the process simply because the failed PMRS is due to expire.

NFFE encourages a cautious approach to pay experiments, and we support the National Research Council's recommendation of beginning with carefully controlled pilot studies of a variety of pay-for-performance systems in different agencies.

We suggest that OPM begin experimentation with managers and supervisors. It would be prudent for the Government to first achieve success with this group before asking them to administer programs for their subordinates. Only after those programs work successfully do we feel that it would be appropriate to apply them to rank-and-file employees.

Furthermore, NFFE agrees with the PMRS committee recommendation that supervisors and managers should have systems separate from other employees, as their responsibilities differ.

For the approximately 80 percent of the Federal work force that is organized, NFFE believes that the current state of labor-management relations is not conducive to successful pay-for-performance programs. The statute's current limitation on the scope of bargaining and its broad management rights clause has been interpreted to minimize or eliminate meaningful employee input.

NFFE believes that the solution to the extremely adversarial environment of current labor-management relations is a complete reform of the whole process.

As a short-term alternative we support passage of legislation similar to the Federal Employees Flexible and Compressed Work Schedules Act of 1982. Such statutory language would permit full schedule negotiations over pay-for-performance plans, would create a cooperative relationship and dramatically increase the likelihood of the success of any negotiated plan, since the employees would then have that partnership that my brother union presidents have spoken of. The role of the Federal Service Impasses Panel in this process must also be altered to meet changing circumstances.

We also take exception to linking locality pay and cost of living adjustments to any pay-for-performance plan. We will not support any scheme which impacts the base pay of employees. The base salary of a position should have no relationship to performance. Moreover, linking pay to performance will only widen the pay gap between the public and private sector, thereby exacerbating the Government's recruitment and retention problems.

A major cause for PMRS grading inflation was the heavy weight that the performance rating carried in making personnel decisions. When an individual's employability status, RIF status, locality pay, cost-of-living adjustment, promotion potential, and possibility of receiving a bonus are all wrapped up in a performance appraisal rating, it is very likely that supervisors feel extreme pressure to inflate ratings.

Any pay plan developed must address the issues of accountability and compliance. In his testimony last week, OPM Director King made it clear that his agency does not plan any comprehensive oversight. King suggested that GAO would do a lot of the monitoring. However, GAO's representative had strong reservations about this suggestion, since GAO generally only investigates upon request. And once a study is conducted and a report issued, GAO has little or no enforcement power. It is crucial that OPM develop procedures necessary to provide qualified oversight. And it is important that independent organizations such as the National Research Council play a role in monitoring the process.

Madam Chair, this concludes my testimony. I appreciate the opportunity to be here.

Ms. NORTON. Thank you very much, Mr. Keener.

[The prepared statement of Mr. Keener follows:]

PREPARED STATEMENT OF ROBERT S. KEENER, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Madam Chair and Members of the Subcommittee: Thank you for providing the National Federation of Federal Employees with this opportunity to discuss the reauthorization of the Performance Management and Recognition System (PMRS) and the Office of Personnel Management's (OPM) proposal to create a flexible and unified performance management system covering all federal workers.

The birth of the pay-for-performance movement in the federal sector is due, in part, to the bureaucrat-bashing campaign rhetoric which began during the 1976 presidential election, and continues today. According to early critics, federal employees were not productive and did not measure up to their private sector counterparts. Performance appraisals and pay-for-performance were needed to correct the situation.

After passage of the Civil Service Reform Act in 1978, pay experiments were begun for federal managers, supervisors and the Senior Executive Service (SES). In 1981, the Merit Pay System (MPS) was created to place managers in the GS 13 to GS 15 level under a pay-for-performance system. By 1984, the program was declared a failure, as it did not demonstrate a relationship between pay and performance. Critics also claimed that the MPS was underfunded, and that ratings were arbitrarily modified. The program established for the Senior Executive Service was also a failure, as its overly generous bonuses nearly depleted the fund.

Political factors also contributed to the downfall of these programs. Beginning with the Reagan Administration, as the National Research Council study on pay-for-performance documents, OPM's human resource function was changed. Most planning, evaluation, and research activities were eliminated or drastically reduced. OPM became more concerned about the Administration's political agenda and less concerned about human resource issues.

The Performance Management and Recognition System (PMRS) was established in 1984 with high hopes of overcoming the problems associated with the Merit Pay System. As we heard in testimony presented last week by OPM and GAO, and as documented by reports from the Pay-for-Performance Labor-Management Committee, the National Research Council, the Merit Systems Protection Board, and other organizations, PMRS has also been deemed a failure. Managers express little confidence in the ratings, rating inflation is rampant, and accusations of predetermined or "forced" distributions of ratings to control payout obligations are common.

Although we support the Administration's goal of making our government more efficient, NFFE has strong objections to OPM's latest attempt to reform the system. Experimenting with the pay of our workers does not, under present circumstances, promote efficiency—especially with an Administration that has frozen pay and refuses to implement locality pay as scheduled by law. OPM appears to be rushing into the process simply because the failed PMRS is due to expire soon.

NFFE encourages a cautious approach to pay experiments, and we support the National Research Council's recommendation of beginning with carefully controlled pilot studies of a variety of pay-for-performance systems in different agencies. We suggest that OPM begin experimentation with managers and supervisors. It would be prudent for the government to first achieve success with this group before asking them to administer programs for their subordinates. Only after those programs work successfully, do we feel that it would be appropriate to apply them to rank-and-file employees. Furthermore, NFFE agrees with the PMRS Committee recommendation that supervisors and managers should have systems separate from other employees, as their responsibilities differ.

For the approximately 80 percent of the federal workforce that is organized, NFFE believes that the current state of labor-management relations is not conducive to successful pay-for-performance programs. The Statute's current limit on the scope of bargaining and its broad managements rights clause has been interpreted to minimize or eliminate meaningful employee input.

NFFE believes that the solution to the extremely adversarial environment of current labor-management relations is a complete reform of the whole process. As a short term alternative, we support passage of legislation similar to the Federal Employees Flexible and Compressed Work Schedules Act of 1982 (FCWSA). Such statutory language would permit full-scope negotiations over pay-for-performance plans, would create a cooperative relationship and dramatically increase the likelihood of the success of any negotiated plan, since the employees would have partnership in such a plan. The role of the Federal Service Impasses Panel in this process must be altered to meet changing circumstances.

We also take exception to linking locality pay and cost of living adjustments to any pay-for-performance plan. We will not support any scheme which impacts the base pay for employees. The base salary of a position should have no relationship to performance. Moreover, linking pay to performance will only widen the pay gap between the public and private sector, thereby exacerbating the government's recruitment and retention problems.

A major cause for the PMRS grading inflation was the heavy weight that the performance rating carried in making personnel decisions. When an individual's employability status, RIF status, locality pay, cost of living adjustment, promotion potential, and possibility of receiving a bonus are all wrapped up in the performance appraisal rating, it is likely that supervisors could feel extreme pressure to inflate ratings.

Any pay plan developed must address the issue of accountability and compliance. In his testimony last week, OPM Director James King made it clear that his agency does not plan any comprehensive oversight. King suggested that GAO would do a lot of monitoring; however, GAO's representative had strong reservations about this suggestion, since GAO generally only investigates upon request, and once a study is conducted and a report is issued, GAO has little enforcement power. It is crucial that OPM develop procedures necessary to provide qualified oversight, and it is important that independent organizations such as the National Research Council play a role in monitoring the process.

Madam Chair, this concludes my testimony. Again, I appreciate the opportunity to appear before you today. I will be happy to answer any questions that you may have.

Ms. NORTON. Mr. Roth.

Mr. ROTH. Good afternoon, Madam Chair.

My name is Dennis Roth. I am the Federal eastern area vice president of the International Federation of Professional and Technical Engineers. I am also president of the local union at the Congressional Research Service at the Library of Congress.

Again, I would like to add my thanks and recognition to your efforts for your fight for Federal employees. Having worked for CRS for the last 17 years, I know how hard it is to swim upstream in Congress and to fight a battle which is not necessarily a popular one. So I think we have a special feeling for all your efforts and want to extend our heartfelt thanks.

There is an adage that says beauty is only skin deep. Programs that appear attractive in theory often only create problems they were developed to solve. Such is our concern over the administration's proposed Performance Management and Recognition System. It looks good; but without careful implementation and close monitoring, the program can turn quite ugly.

We strongly agree that Federal employees should be held accountable for their performance and supervisors should also be held accountable for accurately rating their employees. My personal experience has shown that the biggest problem in the Federal employee performance evaluations is not the tool but the users of the tool.

Mr. Sturdivant talked about the firing of employees and how difficult some people say it is. My experience has been that it is because management does not do its job. And one thing the Federal sector must do is document when somebody is not doing their job. It is just not at-will as it is in the private sector. But I find Federal managers unwilling to take that special effort, either up or down. I find employees who do very good jobs. It is not too much work to fill out a form for them to get special recognition.

In the same way, it is not too much trouble for them to fill out a form saying this person is not performing. There isn't this constant feedback that we heard about. And it really works to the detriment both ways.

On the issue of longevity pay, again, I think that it is not longevity pay. It turns out that way because Federal managers are not doing their management jobs. Oftentimes that is not their own problem. It is because, at least in my experience, managers get to their positions because they were good doing what they were doing. And the next promotion in the system or the reward system is a managerial position. And they win that, but they are not given the proper training, and they often have the best of intentions but just don't know how to do it right.

OPM's proposal will cause the pendulum of performance to swing in one of two ways: Either in a positive way, to greater enhance productivity or in a negative way to decrease productivity and further erode morale that is not very high in the Federal sector, and particularly where I represent employees at the Library of Congress.

Federal employees are already being asked to sacrifice their benefits as well as their pay. To add a performance appraisal system that is not fair, equitable, and fully funded will severely damage the high quality of the Federal work force.

Tying pay to the Federal budget presents problems. We have already seen in the House appropriations for the Library, not dealing with our employees, but for the Library managers, that Congress has said there will be no bonus money this year as part of the budget saving initiatives. This extends to regular rank and file employees, the GS employees; you are not working pay-for-performance, you are working pay for budget.

IFPTE joins our brother locals here in opposition to the linkage of COLA's and locality pay with performance. Municipal employee involvement, and union cooperation are needed, however, to implement any pay-for-performance programs. Only through collective bargaining which puts both sides on an equal basis can balance be achieved.

At IFPTE, we have already encountered some pay-for-performance experience or problems. I would just like to talk about a couple of problems we have seen and a couple of the pluses we found.

In one case an employee who always received a rating of outstanding had a good rapport with her supervisor, but after having a difference of opinion, the supervisor rated the employee from "outstanding" down to "fully successful." It took a grievance to get the employee's rating back to outstanding.

Another employee was told by her supervisor, "If you do something for me, I will do something for you." The meaning for this was that if you have a sexual relationship with me, then you will get a good rating.

Clearly, we don't want items like that in any performance ratings.

In yet another instance, employees have told of supervisors who will give everyone the same rating, even if certain employees have not performed at the levels they should have, in order to keep pressures or retaliation off their shoulders.

At the other end, I would like to tell you about one program in place at our Local 11 at Mare Island Naval Shipyard in California.

All employees begin with the same rating, "Exceeds Fully Successful." If a supervisor feels an individual has performed above or below this rating, he or she must submit supporting documentation to the Performance Appraisal Review System Review Board. The Board, comprised of union representatives and managers from divisions other than the division being rated, reviews the submitted information.

Individual's names are removed from all documentation before being submitted to the Board to assure anonymity and prevent favoritism. The Board then votes and passes its decision on the supervisor, either supporting the supervisor's recommendation or rejecting it. This gives the employee a level playing field at the outset. This alternative also allows the supervisors a vehicle where fairness and equity are first and foremost. It has also led to a significant reduction in the number of grievances that were filed at Mare Island over the performance ratings.

In conclusion, I would like to reiterate, before any pay-for-performance linkage is altered, meaningful employee involvement and cooperation and support must be part of the process. Everyone wants to cut costs and have the Government run more efficiently than it currently does. An investment of time and experimentation with other alternatives in the beginning can lead this Government and its employees to a harmonious solution.

Thank you.

[The prepared statement of Mr. Roth follows:]

PREPARED STATEMENT OF DENNIS ROTH, VICE PRESIDENT, FEDERAL EASTERN REGION, INTERNATIONAL FEDERATION OF PROFESSIONAL AND TECHNICAL ENGINEERS

Good afternoon Madam Chairwoman and members of the subcommittee. My name is Dennis Roth. I am the Federal eastern area vice president of the International Federation of Professional and Technical Engineers. On behalf of this organization, I wish to thank you for inviting us to give testimony on the issue of reauthorization of the Performance Management and Recognition System.

There's an adage that says "beauty is only skin deep." Programs that appear attractive in theory, often create more problems than they were developed to solve. Such is the case for the administration's proposed Performance Management and Recognition System. It looks good, but without capital implementation, the program can turn ugly.

We strongly agree that Federal employees should be held accountable for their performance and supervisors should also be held accountable in rating their employees. Experience has shown that the biggest problem in Federal employee performance evaluations is inadequate evaluations in terms of subjectivity and honesty.

OPM's proposal will cause the pendulum of performance to swing one of two ways: Appropriate implementation will lead employees to increase their productivity or morale will sink to an all time low along with productivity. Federal employees are already being asked to sacrifice their benefits as well as their pay. A performance appraisal system that is not fair, equitable, and fully funded will severely damage the high quality of the Federal workers.

IFPTE is staunchly opposed to the linkage of COLA's and locality pay with performance, but does support the linkage of other pay for performance. Meaningful employee involvement and union cooperation and support are needed, however, to implement any pay-for-performance programs. Only through collective bargaining can an even balance be achieved.

Problems encountered with IFPTE with pay for performance vary from agency to agency. Some of the problems our members have encountered include:

An employee who always received a rating of "outstanding." The employee had a good rapport with their supervisor. After having a difference of opinion with the supervisor, their rating changed from "outstanding" to "fully successful." The employee grieved the rating. They won the grievance and the rating was changed to "outstanding."

Another employee was told by their supervisor "If you do something for me, I'll do something for you." In essence the supervisor was saying they had to have a sexual relationship in order for the employee to receive an outstanding rating.

In yet another instance, employees have told of supervisors who will give everyone the same rating, even if certain employees have performed below or above the rating, to keep any pressure or retaliation off their shoulders.

Alternative programs must be pursued to their fullest extent to allow for differences among the conglomerate of agencies. Several alternative programs have already been implemented. I would like to tell you about one program currently in place at IFPTE Local 11 at Mare Island Naval Shipyard in California. Initially, all employees begin with the same rating—exceeds fully successful. If a supervisor feels an individual has performed above or below the EFS rating, he/she must submit supporting documentation to the PARS (Performance Appraisal Review System) Review Board. The Board, comprised of union representatives and managers from divisions other than the division being rated, reviews all submitted information. Individuals' names are removed from all documentation before being submitted to the Board to assure anonymity and prevent favoritism. The Board then votes and passes its decision on to the supervisor. This gives the employee a level playing field at the outset. This alternative also allows the supervisors a vehicle where fairness and equity are first and foremost.

In conclusion, I again reiterate before any pay-for-performance linkage is altered, meaningful employee involvement and union cooperation and support must be part of the process. Everyone wants to cut costs and have the Government run more efficiently than it currently does. An investment of time and experimentation with other alternatives can lead this Government and its employees to a harmonious solution.

Thank you.

Ms. NORTON. Thank you very much, Mr. Roth.

I have some questions for all of you that are very important to hear your responses. I would like to call a 5-minute—no more than 5-minute recess. And then I will begin the questioning.

[Recess from 3:50 p.m. to 3:55 p.m.]

Ms. NORTON. I appreciate the detailed and useful testimony that all of you have offered. I also appreciate your kind comments concerning our role on locality pay. Be assured that we were guided by two principles: The best interests of the Government and the best interests of its employees.

In light of the fact that our employees were once again being asked to sacrifice very substantially, it seemed to us that it was not in the best interests of the Government to have a completely demoralized work force. And we are attempting not to be penny wise and pound foolish. I hope we can do it, and we are trying very hard to do so.

I am very interested in the bargaining aspect here, coming in part out of my own work and study as a labor law professor before I came to Congress where I looked very closely at employee involvement, employee participation programs which appear to have grown out of organized—the organized sector, often the manufacturing sector, which is at the most—a sector which pioneered trade unionism, known for its militancy, quite extraordinary results in the organized sector, achieved through collective bargaining.

Some of the unions that have been involved have reputations for years for tough dealings with management, unions like the Steelworkers, UAW, for example. Having studied that process in the private sector, I cannot help but exercise a presumption in favor of the notion that if you bargain it out and come to an agreement, it would work better than if you would impose it.

In fact, the whole notion that OPM put forward was to somehow move to a system that was not hierarchial and old style in its approach.

I am trying to understand the true nature of OPM's concern. It was not laid out in detail, even upon questioning. And in trying to understand it, I need to know more about your testimony regarding the nature of the consultation you have had on the present system.

Was it—is it mandated by law? Does it occur in some places and not others? What is the nature of the consultation? Do you have—do you consult, if not with performance management, with comparable programs that would give us some insight as to how consultation of some kind; indeed, bargaining would work?

Are there problems such as getting bogged down if you try to bargain your way to a system?

The committee needs greater insight into why consultation is insufficient and whether bargaining would work.

Mr. TOBIAS. Madam Chair, currently, performance management—the existing performance management system is restricted at two levels; first, by what are considered agency-wide rules and regulations issued by OPM. If one of those is in existence, the subject matter is not bargainable.

The second limitation on the scope of bargaining is the broad management rights clause. So even if there is no agency-wide rule or regulation, the broad management rights laws preclude bargaining. And the classic example is the performance management system.

What OPM is proposing is to eliminate the agency-wide rule and regulation, thereby giving managers more discretion to make decisions, agency heads more area, discretionary authority but at the same time, rejecting our suggestion that the management rights clause be restricted to allow bargaining on these matters.

Rather, what OPM is suggesting is that employees will continue to have input. Now, the input language is in the existing law. It is right there in the existing law mandating input. And I can tell you, over and over again, there is no input, either individually or collectively, and in fact, there have been a series of decisions which outlaw discussions or input on a collective basis.

So OPM——

Ms. NORTON. Individuals can do input, but not collectively?

Mr. TOBIAS. Individuals, theoretically, could have input. But the fact is, they don't, because no one asks them. Instead of an individual supervisor meeting with an individual employee, agencies issue critical elements and performance standards on an agency-wide basis. So there is no input by individual employees on an annual basis about what their performance will look like at 3 months, in 6 months, in 9 months, in a year. It doesn't happen. And it has never happened, even though the performance management system in place was advertised to empower employees. It has never happened. And so now we hear, after all the studies, the same old rhetoric once again.

Now, I suggest that by allowing bargaining, you will create a process that is not only understandable but accepted and will achieve the goals and objectives that OPM says it wants to achieve.

Now, I presume—although I don't know because no one has told me—I presume that the objection is some fear that bargaining will bog down and nothing will happen. But I suggest that when you look at what happened in 1979, it took OPM, operating unilaterally, 4 years to implement a new system. I believe that collective bargaining would be faster and more efficient than 4 years.

So I truly favor the bargaining process and the partnership approach.

Mr. STURDIVANT. You know, I would like to figure out what OPM is talking about also when they mention input, to get it down to specifics. I guess the message I am really getting from OPM, which is disturbing, is that they are really not interested in having a partnership with the employees. We have gone through this whole process; or we continue to go through this process of Reinventing Government, for change. And we are going to ask the rank-and-file employees how to do it better, how to do it more effectively, how to do it more efficiently. The way you do that is with the employees' unions.

One of the things that we learned while I was up at the Philadelphia summit also, and a couple of things struck me, first of all, they had four private sector companies, Xerox, GE, Harley Davidson, and Cadillac; and all of those companies clearly indicated when they questioned them—and it is on the record—that they had to have their—in creating high-productivity work places, in dealing with problems, problems of—financial problems, whatever the problems of the enterprise, the unions had to be full partners from the ground up.

As I have said many times, if you have to ask, when do I bring the union in, you are already too late. One of the more significant points that we heard from the representative from Cadillac, which is different from Saturn where they started from the ground up with a new plant—new workers, new equipment, everything, in Cadillac, they basically had to change the culture in the workplace and move toward trust and move to a lot of other things.

The representative said, the first thing we did in order to show—to get the union on board and to get trust was we eliminated individual performance appraisals. Eliminated them. They had no place in a high-productivity workplace, because people have to work as teams. And the current system pits one employee against another, leads to employees withholding information from each other, and really does not focus on the mission and objectives of the agency or the work group.

So, you know, we really—I don't really understand where OPM is coming from, if they want to have employees—if they want to have energy and creativity bubble up from the rank and file, then collective bargaining is the process to do it. Bring us to the table as full partners, get us into the process of not only trying to go out and sell something that is ill-advised to start with; but bring us in and help us identify the problems of productivity, efficiency, and everything else, and then have us as full partners in crafting solutions, in implementing solutions, and selling solutions.

And OPM has not gone in that direction. And if they don't go in that direction, I can tell you, it is going to be another continuing failure like we have had in the past.

Mr. ROTH. Consultation really doesn't mean that anybody has to do anything. It is sort of like beauty, it is in the eye of the beholder. It is just listening, here is my plan, what do you think about it? Thank you, I will go on and do what I want to do anyway.

Given the level of trust between labor and management now, it is sure to be adversarial. I think partnership is the key word. The only thing that really guarantees us an equal playing field is some type of mandated way that we go forth as equals if we want to solve the problem together. Otherwise, it is just a discussion back and forth. But if they have the final decision, you have no assurance that anything you say will get anywhere.

Mr. TOBIAS. It is interesting, Madam Chair, that the proposal that OPM is making actually guarantees an adversarial process. Because what will happen is that agencies will be delegated new authority, they will create new processes, they will be presented after they are created. And our only role at that point will be to say no, no. It should be some other way. And we will be butting heads.

So it is a perpetuation—the proposal, in essence, I believe, is a perpetuation of a bad system.

Ms. NORTON. Mr. King felt very strongly about this linking of locality pay and performance. The argument that goes to apples and oranges is conceptually clear, it seems to me.

One gets the impression from his testimony that conceptual issues aside, that it is—that the Government has found it indefensible and has been attacked for allowing pay increases for people who are unsatisfactory. And he thinks it wrong that the unions are insistent upon defending what he says is 1 percent of the work force has the effect of robbing the unions and the work force, he would say, of credibility with the American public who pays your salaries and that, therefore, you are giving up a great deal in credibility by insisting that people who are unsatisfactory continue to get any form of raise whatsoever.

How would you respond to that?

Mr. TOBIAS. Well, I would say, Madam Chair, that I am unaware of any private sector pay system which involves base pay, which is, in turn, determined on the basis of merit. That is No. 1.

Ms. NORTON. Wait a minute now. Is there a comparable situation? Here we are talking about trying to get Federal pay comparable to private sector pay, whereas most—I take it most private businesses don't go through such a process.

Mr. TOBIAS. But actually, they do. They do extensive salary surveys, both as the basis for determining pay, and also salary surveys that are used both by unions and management in terms of bargaining pay.

Ms. NORTON. You are saying, therefore, that after a salary survey, an unsatisfactory employee will, as a routine matter throughout the private sector be awarded the salary increment?

Mr. TOBIAS. If that—what we are talking about is an annual increase. If that person is performing during the period of time when the annual increase occurs satisfactorily, he or she receives the increase.

The issue that Director King is sidestepping and avoiding is the failure of OPM and agencies to step up to the performance problem.

The fact of the matter is that in the Federal sector, it is now easier to discharge a Federal employee than it is to discharge a private sector employee, because the test for discharging a private sector employee is just cause, and the basis for discharging a Federal employee is substantial evidence, a significantly lesser standard.

And the fact of the matter is that 80 percent of those who challenge their discharges on performance to the MSPB lose their appeals. So there is this whining about a standard, and an inability to discharge Federal employees is just that, whining.

Mr. STURDIVANT. Let me just say something too. And I think Director King is trying to create some kind of smoke screen.

The first—you know, it has been years since we have heard this argument about how it was to fire Federal employees. I don't even know, even in the days that we fought bitterly, the Bush administration, and perhaps even some elements—well, some of the later elements of the Reagan administration, certainly in the Bush administration we did not hear those arguments. We certainly did not hear them from the Director of the Office of Personnel Management.

So I would submit to you, Madam Chair, that the only cheap shot artists that are raising this issue, this is coming from the administration. They raised this issue. We haven't heard this anywhere else, in the media or anywhere else.

This issue has been resurfaced by this administration as a way to, once again, go after the credibility of the process of locality pay and FEPCA, which we crafted with a Republican administration. That is where we are hearing it from. We are hearing it from the Director. He is the guy who is talking about it. Nobody else has been talking about this until he started.

Mr. KEENER. If the issue, Madam Chair, is one of discipline for people who are not performing, if discharge is appropriate, then that is what the union has a grievance procedure for. And——

Ms. NORTON. But the union probably would fight the notion of one satisfactory resulting in discharge—one unsatisfactory resulting in discharge.

Mr. TOBIAS. That is the law today. If you fail to meet your critical element, if you fail to meet the performance standard in one critical element, you may be discharged; and people are discharged on that basis.

Ms. NORTON. Yes. But probably not routinely. Are you telling me that the Government, in fact, regularly discharges people who fail to meet a critical element?

Mr. KEENER. They fail to fulfill their management obligation to properly supervise and to evaluate; therefore, they do not properly discipline or discharge employees. That is why the arbitration cases are won more often than not by the unions.

But the issue isn't whether or not it is proper to discipline. It is tying base pay to discipline or to poor performance, and that is inappropriate. Base pay should not be tied and, in our view, cannot be tied to locality pay. The locality pay and performance are two separate issues. The incentives for performance are much different from locality pay. That is what you get because you are working in an area where the cost of living is very high.

Ms. NORTON. There has been——

Mr. ROTH. It is certainly within their rights. It happens in the private sector, it happens in the public sector. The concern is that you have to, again, be a little more methodical in the Government sector.

I just find Federal managers don't want to do all the documentation. They are not really doing their job. If they get fired, then certainly Mr. King's arguments are out the window. They are not going to get a locality pay and they are not going to get a cost-of-living increase. Because ours fall every January, and it is the same in the private sector, they tend to fall in January. If you are in the process, sure, you may get it, but 2 months later you are out your job. That is what is ignored.

Mr. STURDIVANT. People are being fired. People are being put on the street. I talked to a lady yesterday, her mother is being put on the street, and she was trying to find out where the case was, where the appeal was.

So people are being fired. If you take a look at the probationary period in the Government, you have a year probationary period. I would imagine in the private sector the probationary periods are much shorter than that. So basically I submit if you are a manager and if you don't know that an employee is unsatisfactory or a poor performer in a year, then you probably are a poor performer yourself. That is to start with.

So what we recommend as kind of a two-step process is taking a look at what happens during the probationary period. Accelerated reviews, accelerated mentoring, taking a close look at the employee as they come into the Federal service to determine whether or not they have the skills, whether or not they have the training to do the job, making sure that the individual is properly suited to the job that you are employing them for as they come into the Federal work force, and dealing with a more intense—finding out what the supervisor is doing, what type of process is going on during the probationary period. Granted, a person is a good performer, they get through their probationary period, drug problem, family problems, marital problems, some other problems in performance.

And we say, why is that happening? What type of management is going on? What type of supervision is going on? People don't just get up in the morning and say, I am going to go to work and be a failure. They don't get up and say, I want to be a failure. Most people want to be successful.

So we say, what is happening in the workplace? What is going on that suddenly a good performer is unsatisfactory? What feedback, what training, what supervision, what explanation of the details of the work are going on from this manager, from this supervisor to this employee?

Another point that we would submit to you is that the workplace of the future, the high-productivity workplace of the 21st century, you are not even going to have the traditional supervisor-to-employee relationship where it is do as I say or do as—you know, shape up or ship out, or this is what you have got to do. We see the supervisor of the 21st century in a high-productivity workplace being more of a coach, of a team leader, of a mentor.

People who are being fired or who are being unsuccessful on their jobs, there is something wrong with whatever is going on as to why that person is not being successful. And we would submit that in the workplace of the future, that whole relationship is going to change. And once again that is an area for full partnership between the employer and the union, to solve these problems through some productive measures, including collective bargaining, rather than punitive measures of, you know, shape up or ship out.

Ms. NORTON. I am interested that you are or at least some of you seem to feel that locality pay should be implemented, or at least started before embarking on the full-scale revamping of pay-per-performance systems. Why do you think that is the case?

Mr. KEENER. In our case, Madam Chairman, the law was passed, a great deal of work, effort, and study has gone into locality pay. The studies are done. It is time to implement the law.

This is something that has been crafted carefully by all of the labor unions, by management. It was cooperatively set up by both sides of the aisle. It was a Republican Congress that put it into effect. And it was carefully studied and done. It is time to do that.

This particular issue that is coming forward, the pay for performance thing, if they had carefully crafted that, if they would deal with the unions on that, they might come out with the same kind of product. But they have not done that yet.

Mr. STURDIVANT. The whole locality pay process in FEPCA was basically our efforts, after many years, to try to move toward some objective process to establish pay for white collar Federal employees, and there was give and there was take, and no one got what they wanted, we all got something, we all compromised. It just seems to us in AFGE that that is a mechanism that is very important that it get started.

Ms. NORTON. If all goes well, you are going to get started, what, in July?

Mr. KEENER. July 1994.

Ms. NORTON. Again, assuming that these are different things, and of course making the huge assumption that one would have something to implement, all you can do in July is start, anyway, because this is a 10-year process. At what point do you think performance management should kick in?

Mr. TOBIAS. When you say performance management, are you saying the PMRS system?

Ms. NORTON. Yes, PMRS, or the new system.

Mr. TOBIAS. The new PMRS system.

Ms. NORTON. Yes.

Mr. TOBIAS. Well, I think that placing the supervisors and managers on a step system and creating a new system for them can certainly be done. I don't see any reason why it can't be done in

6 months, if that is your question. I think 6 months is plenty of time.

Ms. NORTON. That is the supervisors and managers. What about rank-and-file?

Mr. TOBIAS. Well, I think that if the system is put into place which allows for collective bargaining, then I believe it will go into effect in a very fast period of time, because it will be subject to bargaining, it will be something that is eagerly sought to discuss.

I think if you looked at collective bargaining agreements in the Federal sector, you might see that 40 or 50 percent of them have to do with evaluations and promotions. So it is a subject that would be taken up eagerly and a subject that would be addressed rapidly, and I think implemented rapidly as well.

Mr. ROTH. It would probably require a phase-in, because you are in one system now being judged, and you want that one to end before you start another one. So it may take a full year depending on your anniversary date to get the whole thing phased in.

Mr. STURDIVANT. If we are talking full partnership and collective bargaining, then we would determine at that point how it gets in. I would think we would be eager, we would be eager to get to the bargaining table to address very critical, very important issues to the employees that we have not had the vehicle or the attitude or the culture to address. So we certainly would be very eager to start that process, and move through some phases of it.

Ms. NORTON. I want to thank all of you for truly essential testimony and for the forthright and useful insights you offer the committee.

Thank you once again.

[Whereupon, at 4:20 p.m., the subcommittee was adjourned.]

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